

**GOVERNMENT OF INDIA**  
**DEPARTMENT OF INDUSTRIES**  
**AND SUPPLIES**



**R E P O R T**  
**OF THE**  
**DISPOSALS ENQUIRY COMMITTEE**

**FEBRUARY 28, 1947**

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## I. INTRODUCTORY

The Disposals Enquiry Committee was appointed by Government of India Resolution No. D-1 (265), dated 12th October 1946 with the following terms of reference :—

- (1) To review the problems of the Department and to advise whether the organisation, personnel, and class of officer and staff are adequate and suitable for handling these problems.
- (2) To advise whether methods of disposal in themselves are suited to producing results which are :
  - (a) in the interests of the public,
  - (b) expeditious.
- (3) To advise whether, in their view there are definite indications of corruption.
- (4) And in general to suggest methods of improving the performance and standards.

The Committee consisted of Sir Maurice Gwyer and Dewan Bahadur Sir T. Vijayaraghavacharya, K.B.E. Mr. S. Bhoothalingam, O.B.E., I.C.S., acted as Secretary to the Committee.

2. The Committee started work on the 21st October 1946. In the initial stages Sir Maurice Gwyer was unable, owing to illness, to take active part in the proceedings. From the beginning of December, 1946, however, he has been able to associate himself fully with the work of the Committee in Delhi, although it was not possible for him to undertake any tour.

3. *Scope of the Enquiry.*—In September 1944 the Government of India constituted a Disposals Board for controlling all disposals and deciding questions of policy. The composition of the Board is now as follows :—

1. Secretary, Industries and Supplies Department— Chairman.
2. Secretary, Defence Department (as required).
3. Secretary, Commerce Department.
4. Secretary, Food Department (as required).
5. Financial Adviser, War and Supply.
6. Master General of Ordnance.
7. Head of the Ministry of Supply in India.
8. Director-General (Disposals).

A Joint Secretary to the Government of India in the Industries and Supplies Department is *ex-officio* Secretary to the Board, which ordinarily meets once a month.

4. The Principal executive Agent of the Board is the Director General of Disposals who is under the administrative control of the Department of Industries and Supplies. Subject to the general direction of the Board and its specific sanction under certain circumstances, he is responsible for the disposal of practically all surplus goods and property, including factories, industrial units and hospitals. The only exceptions are :—

- (a) Lands and buildings not required by the Defence Services, which are disposed of by the Lands, Hirings and Disposals Directorate of G.H.Q.
- (b) Surplus lands and buildings of Civil Departments, which are disposed of by the Department concerned.
- (c) Surplus foodstuffs and analogous articles, which are disposed of by the Food Department.

As we have only been asked to tender advice to the Department of Industries and Supplies on its disposals problems, we have not extended our enquiry to the disposal of lands and buildings or foodstuffs.

5. The Disposals organisation whose operations are examined in this report consists of a Director General of Disposals assisted by an hierarchy of Deputy Directors General, Directors, Deputy Directors, Assistant Directors and Deputy Assistant Directors at headquarters and a Regional organisation consisting of four Regional Commissioners at Calcutta, Bombay, Lahore and Cawnpore assisted by Deputy, Assistant and Deputy Assistant Regional Commissioners. The headquarters organisation consists of four main divisions each under a Deputy Director General. The division of work is partly by commodity and partly functional. One Deputy Director General is responsible for the disposal of general stores, vehicles and transportation stores; a second for the disposal of capital assets, machinery, metals and engineering stores; a third for the disposal of all American surplus stores of whatever character excluding, of course, foodstuffs; a fourth is in charge of the administration of the Department's publicity, statistics and general co-ordination. Concurrent financial control is provided by the close day to day association of officers of the Finance Department headed by a Joint Financial Adviser. He is assisted by two Deputy Financial Advisers and two Assistant Financial Advisers at headquarters. Finance officers have also been accredited to the Regional Commissioners at Calcutta and Bombay but not to those at Lahore and Cawnpore. We shall discuss the structure and functioning of the organisation in more detail in later paragraphs; but it is necessary to mention at the outset that except in a narrow range of transactions of limited financial value consultation with and the concurrence of the Finance officers is invariably required.

6. *Method of enquiry.*—We have attempted to deal with the problems set before us by an examination of the working of the organisation both from the inside and from the outside. We have interviewed most of the officers of the Department and tried to form an impression of their qualities and adequacy for the work entrusted to them. We have tried to ascertain by oral examination the actual way in which disposals are effected and problems arising from them dealt with. We have scrutinised a fairly large number of representative files and in particular the records of most major transactions. From the outset it was our object to conduct this examination as far as possible in the light of public criticism. In order to acquaint ourselves with the character of public criticism we invited Chambers of Commerce and Trade Associations to express their criticisms and suggestions. The response from these Associations was good. We received memoranda and notes from 28 Associations which included most of the principal Chambers of Commerce and Trade Associations (Appendix I). Sir T. Vijayaraghavacharya accompanied by the Secretary visited Lahore, Bombay, Madras, Cochin, Calcutta and Assam and took the opportunity of these visits to hold personal discussions with representatives of all but three of them on the criticisms and suggestions offered by them. Many of the principal Associations had taken considerable trouble to prepare and present their point of view and we take this opportunity to acknowledge our thanks to them. We have been struck by the general unanimity of opinion among commercial bodies on various important aspects of the problem of disposal. Practically all Associations have referred to the lack of complete information either of what there is for disposal and how Government proposed to dispose of it. The tendency for disposal business to be concentrated increasingly on a specialised circle of buyers, agents and brokers has been brought to our notice by everybody. The general belief is that conditions under which surplus goods are disposed

of make it virtually impossible for industrial consumers to obtain their particular requirements. There has been almost universal condemnation of the practice of making sales by negotiating with a few persons without giving equal opportunities for all and a general demand for the adoption of more competitive methods. There is an impression, due mainly to lack of knowledge of the way in which surpluses are determined, that surplus goods are deliberately withheld from disposal. We have received many caustic comments on the dilatory and unbusinesslike methods of the Department, and of the trouble and delay in getting refunds of earnest money. We have borne in mind these and similar criticisms during our examination of the working of the organisation and our comments in the succeeding paragraphs will indicate that in our view there is considerable justification for many of them.

7: During his tours Sir T. Vijayaraghavacharya also took the opportunity of visiting a number of depots, namely Engineering Stores Depots, Harbanspura; Salvage Depot, Lahore; the collection of depots at Avadi; depots at Dehu and several American depots in Assam, in order to obtain an impression of the conditions of storage and the problems of custodianship by personal observation and discussions with military officers in charge. In Bombay and Calcutta he met the members of the Regional Disposals Advisory Committee and ascertained their points of view on the subject of disposals with particular reference to the role of the Advisory Committees themselves. We both had a similar discussion with members of the Central Advisory Committee in Delhi. We must also acknowledge our debt to the Joint Financial Adviser and his officers whose knowledge and experience has been of great assistance to us. We also acknowledge our thanks to Lt. Genl. Sir Kenneth Loch and officers of the Military organisation concerned with the determination and stock holding of surpluses for explaining their problems and difficulties to us and for the arrangements they have made to enable Sir T. Vijayaraghavacharya to visit a number of depots.

## II. DECLARATION AND CUSTODY OF SURPLUSES

8. *Determination and reporting of surpluses.*—The function of the Disposals organisation begins with the receipt of surplus reports. It has no part or voice in the determination of surpluses, which is the sole responsibility of the reporting authority. The Defence Services constitute the most important source of surpluses, but not the only source. Others include Civil Departments of the Government of India, such Provincial Governments and Indian States as desire to utilise the Disposals Organisation of the Central Government for dealing with their surpluses, and the Procurement Departments of the Government of India. The surpluses of the last named consist of stores imported and held on Government account, semi-fabricated materials and raw materials no longer required by Government managed production units like Ordnance Factories, and semi-fabricated materials or raw materials which have had to be taken over as a result of termination of war contracts. The reporting authority is expected to declare only true surpluses, a true surplus being the quantity which is surplus to the total requirements of all the branches of the organisation which reports it as determined by that organisation. It is comparatively easy for Civil Departments, Ordnance Factories, etc., to determine their true surpluses and report them for disposal. But, for the Defence Services the determination of surpluses involves a long and complicated process of filtering. Goods not required by a particular Command do not become available for disposal until it has been established that they

are not required by India as a whole or by the War Office. Similarly, determination of Naval and Air force surpluses has to await knowledge of the requirements of the Admiralty and the War Office. It has been explained to us that calculation of surpluses on this global basis is unavoidable in spite of the considerable delays involved; particularly in those categories of goods which are not easily replaceable. While we recognise that this is generally so and it would be undesirable to declare surpluses only to buy them back later, it is clear that the application of this method has resulted in slow and uneven flow of surpluses. Systematic reporting of surpluses began in October 1944 and the book values of declarations made since then are as follows :—

1944	Rs.	Rs.
October . . . . .	10,94,855	
November . . . . .	5,97,799	
December . . . . .	31,59,550	
<b>TOTAL 1944</b>		<b>48,52,204</b>
1945	Rs.	Rs.
January . . . . .	32,40,675	
February . . . . .	51,25,991	
March . . . . .	70,82,388	
April . . . . .	3,71,48,909	
May . . . . .	1,15,97,377	
June . . . . .	2,33,90,602	
July . . . . .	1,08,10,401	
August . . . . .	1,81,88,699	
September . . . . .	2,89,19,731	
October . . . . .	5,35,70,170	
November . . . . .	3,67,89,659	
December . . . . .	7,11,07,968	
<b>TOTAL 1945</b>		<b>30,69,78,570</b>
1946	Rs.	Rs.
January . . . . .	2,94,23,417	
February . . . . .	5,60,65,244	
March . . . . .	2,76,06,246	
April . . . . .	7,17,48,166	
May . . . . .	15,53,34,391	
June . . . . .	33,48,86,373	
July . . . . .	12,08,22,925	
August . . . . .	8,22,21,314	
September . . . . .	6,99,14,224	
October . . . . .	8,60,57,450	
November . . . . .	9,44,70,015	
December . . . . .	8,06,13,506	
<b>TOTAL 1946</b>		<b>1,20,91,63,271</b>
<b>GRAND TOTAL</b>		
(From October 1944 to December 1946)		<b>1,52,09,94,045</b>

(The book value is the value given by the declarer in surplus reports. It is based on the actual cost incurred at the time of purchase and in some cases there are additions for transport and storage and other overhead charges.)

9. For nearly a year after the end of the war with Germany declarations of surpluses were comparatively slow and halting except for a brief

spurt in December, 1945. Fairly heavy declarations were made in May, June and July, 1946, particularly in June, and thereafter the flow has been steady till the end of the year.

10. It is evident that there is a large volume of surpluses yet to be declared; and we consider it of great importance from all points of view that the Disposals organisation should know definitely, as soon as possible, the total volume of goods it has to handle. Delay in this regard makes any kind of advance planning impossible and will also injure prospects of beneficial disposal. We have reason to believe that already orders are being placed abroad for categories of machinery and goods which are probably to be found among surplus stores in India now and will be declared as such later. We therefore considered whether the stage has not now been reached when substantial quantities of local surpluses could be immediately declared leaving a fairly wide safety margin for calculation on a global basis. We were, however, informed in December, 1946, that such a course would still be too risky in the case of those categories of goods which are not easily replaceable, and unnecessary in other categories where the determination of surpluses was said to be nearing completion. If this had been so, there was nothing more to say, though we must confess that we were not wholly convinced about the alleged risk. But we understand that the process of determining and declaring surpluses is likely to continue not only throughout the present year but even beyond. For instance, future surpluses of Engineering stores, which are expected to be of the order of 600,000 tons with a probable book value of about Rs. 70 crores, will be completely reported only by October, 1947. In the case of vehicles, a steady flow at the rate of about 5,000 a month is expected till March 1948. Determination of surpluses of medical stores is still far from complete and is further complicated by the need to make sure that dated stores, now unfit for use, are not turned over for disposal. It is only in the case of Ordnance stores that the process can be said to be nearing completion.

11. It is not possible to estimate with any degree of accuracy the volume and value of surpluses yet to be declared, but it is clear that the book value will be well over a hundred crores. Over 80 out of the 152 crores reported upto the end of 1946, still await disposal. The current year will, therefore, call for the maximum effort by the Disposals organisation. Against this background we consider that the present prospects of the rate of declarations are far from satisfactory. With but few exceptions, the economic interest of the country, the financial interest of the Government, the needs of demobilisation and administrative convenience, all require speedy disposal. There is an inevitable time-lag between declaration of surpluses and their disposal; and we consider that every effort must be made to reduce at least this element of delay. We would, therefore, urge that it would be well worthwhile to take a certain measure of risk and declare Indian surpluses immediately. Failing this, the Disposals organisation should at least be provided with estimates which are accurate and firm enough to enable them to advise prospective buyers, where necessary, not to seek alternative sources of supply.

12. Surpluses are reported for disposal in a prescribed form which is designed to provide the Disposals authority with all necessary information. The main heads in the surplus reports are location, description, quantity, book value and condition. It is most essential that the surplus report, which is the basic document for disposal work, should be full and accurate. We have, however, found that a considerable proportion of surplus reports have been incomplete, defective or misleading. The Director General of Disposals

has reported that this was the case with nearly 2,800 of the 18,000 surplus reports received by him in 1946. The Textile Commissioner informed us that nearly 90% of the surplus reports received by him have contained routine defects which have had to be rectified by correspondence before further action. Even so, major defects in very many cases have come to notice at the time of delivery to the buyer. Several glaring cases have come to our notice where on this account sales have had to be cancelled or fresh terms negotiated with the buyer. Description of condition, involving as it does the element of personal judgement, is always liable to be somewhat vague and there are limits to accuracy; but description of the stores themselves could be less vague and more accurate. There is little excuse for errors in location or quantity; and yet they have occurred often enough where large quantities are involved. It took six months after sale to locate 13 lakhs of garments, while two sales of large quantities of Open Mesh and Flannelette were followed by the discovery that only a small fraction of the goods existed at all. We understand that in the earlier stage surplus reports were made on the basis of ledger balances. Such reports more truly represented what ought to be found in particular depots than what was actually there. Failure to effect a physical segregation of surpluses after declaration, and the practice of issuing stores to units out of lots already declared have also contributed to inaccuracy in quantity. The reporting authorities are aware of these difficulties and the troubles they must inevitably cause. The desire to secure greater accuracy in reporting has not been wanting but the drive has not been sufficient. The seller must know what and how much he is selling and where the goods are. If the surplus reports do not give him this information, he must obtain it by other means. But there is no reason why he should be forced to seek information which it is in the power of the reporting authority to provide.

**13. Custody of Surpluses.**—The reporting authorities do not relinquish physical charge of surpluses immediately they are reported, but continue to hold them until disposal. The Disposals organisation has, therefore, no direct control over the goods it sells. Buyers take delivery from the stockholders. The disadvantages of this arrangement are obvious, but any other arrangement would have involved costly duplication and much administrative confusion. The great bulk of surpluses are military and these are located in a large number of depots scattered all over the country. Some of them are intended to be permanent but the rest are only temporary. Most of them, however, contain both declared surpluses and stocks required by the army for retention and use. This is true of civil reporting authorities also. Until the stage is reached when the entire contents of a depot or a distinct and separate portion of a depot, are surplus stores the transfer of custody to any other authority is quite impracticable. It has been estimated by the M.G.O. that at the beginning of this year the storage of surpluses declared and likely to be declared involved the use of 9,000 acres of land and 20 million sq. ft. of storage space, and a labour force of 40,000 besides administrative personnel and services. He estimated the monthly expenditure incurred for the custody of surpluses at Rs. 20 to 25 lakhs. The proper storage and handling of such an enormous volume of surpluses is obviously no easy task. We have visited several depots including the large collections at Avadi and Dehu and discussed their difficulties and problems with the Officers in Charge. We have found that while the arrangements prescribed are fairly adequate, there is great deal of room for improvement in the actual carrying out of these arrangements, particularly in accurate verification of quantities and clear physical segregation of surpluses from stocks kept for issue. The extent of covered storage available is insufficient to accommodate all the stores and a very large quantity of stores are kept in the open fully subject to the ravages of the weather. In Avadi, thousands



of tons of Naval and Engineer Stores are becoming submerged in grass and jungle. Pilferage is common in spite of security measures to prevent it. To a certain extent it is perhaps unavoidable. We have also heard complaints that buyers taking delivery of goods or intending buyers inspecting goods do not receive sufficient attention or consideration. There is wide-spread belief that corruption in the depots exists on a considerable scale. It is clear that opportunities for collusion with or the levying of tribute upon buyers are wide and we have not much doubt that to a greater or less extent advantage is taken of them.

14. *American Surpluses.*—Indian surpluses are being made available for disposal in a flow. In the case of American surpluses the Disposals organisation has had the advantage of knowing broadly once and for all what there is. In the latter half of 1945, the U.S. Forces decided to dispose of the bulk of their stores in India, taking back with them only relatively small quantities of scarce, secret and war-like commodities. The Foreign Liquidation Commission—which was the overseas disposal agency of the U. S. Government—began making sales in India. This, however, had to be regulated to conform to the general policy of the Government of India and in particular to enable the Central and Provincial Governments to obtain priority for their requirements. The practical arrangements for close consultation proved difficult and unsatisfactory. It was, therefore, agreed in December, 1945, that all American surpluses located in India should be bought by India. The actual transfer was effected in March, 1946, in advance of the price settlement, which was made later providing for equal distribution between the two Governments of realisation in excess of 50 million dollars exclusive of customs duties.

15. In the nature of things, the surpluses had to be taken over by the Government of India on a "said to contain" basis, after only a very nominal check of physical stocks with book balances of the U. S. Forces. Broadly speaking, American surpluses consisted of about 43,735 vehicles, 50,000 tons of airforce stores and 536,329 tons of other stores classified as follows :—

	Tons
Engineering Stores . . . . .	169,787
Subsistence Stores . . . . .	55,068
Signal Stores . . . . .	43,275
Ordnance Stores . . . . .	107,207
Medical Stores . . . . .	16,503
Quartermaster Stores . . . . .	54,101
Chemical warfare Stores . . . . .	2,300
Misc. stores including salvage, spare parts etc. . . . .	88,083
Total . . . . .	536,329

Out of these 337,481 tons were in Calcutta, 165,111 tons in Assam and 33,737 tons in outlying depots. These American surpluses were mainly located in 15 depots in Assam, and 48 depots in the Calcutta area. The M.G.O.'s Military store-holding organisation expanded to take charge of these depots. They have been organised in three jurisdictions namely, a Controller in Calcutta, a Controller in Assam and a Central Controller in Delhi for administrative policy and other depots. The military authorities were, however, not in a position, owing to lack of technical personnel, to take over the custody of the property of the U. S. Airforces, which consisted mainly of area stores and also a variety of general stores required by the Airforce. The R.A.F. too was unable to do so, through shortage of man power. The Government, therefore, had to look for an

alternative agency and finally invited Tata Aircraft Ltd., a firm with considerable experience of aero stores to undertake the agency. Tata Aircraft, however, declined to accept the custodial charge unless they were also appointed as selling agents. This was done and the firm took over depots at Titaghur, Chabua, Panagarh, Karachi, Ranaghat and Agra.

16. In one sense American surpluses, unlike other surpluses, can be regarded as having been fully declared; but in one sense only. For purposes of disposal, declaration becomes complete only when exact quantities of each commodity have been ascertained, or in other words, only when a full physical verification of stocks has been made. Although it is over nine months since the American surpluses were taken over, the process of verification has been very slow. In the Calcutta depots we were informed that even by the end of December, 1946 the progress of verification was negligible and was estimated by the Controller at as low as one per cent. (This of course refers to real detailed verification and not to a broad check which has been carried out to the extent of about 90%.) In Assam verification seems to have gone a little further. Tata Aircraft appear to have done much better; we were informed by them that nearly 50% of the stores in their charge have been verified.

17. Everywhere verification has revealed significant deficiencies as well as excesses. We cannot over-emphasise the necessity to complete detailed verification as soon as possible. In the case of Indian surpluses there are documents to indicate what ought to be found. These documents can be related to previous records, and therefore, variations and deficiencies of stocks which come to notice can be investigated. This important safeguard is totally missing in the case of American surpluses. The documents left by the Americans are admittedly defective and incomplete and no one can now be called to account for deficiencies brought to light by verification. The possibilities of abuse leap to the eye; there can be no better screen for irregularities. So long as there has been no stock verification and depot authorities cannot be held responsible for specific quantities, mere security measures to prevent pilferage are bound to be ineffective. We fully realise the difficult conditions that prevail, particularly in Assam where there are a score of depots stretching from Chabua to Ledo Road. Public highways run through some of the depots which mostly consist of a series of huts without proper perimeter defences. We also recognise that military authorities have been alive to the problem and have taken security measures; but we repeat that all such measures must remain ineffective so long as verification is incomplete. We, therefore, urge that prompt steps be taken to carry out this process without further delay, however difficult it may be. We believe that if the work is seriously undertaken and properly organised it can be successfully concluded within a comparatively brief period. For example, an effort on the part of the military authorities has not only enabled surplus medical equipment and supplies to be verified but has rebuilt them into units sufficient to equip hospitals with 500 beds, 325 beds, 125 beds and so on. What has been found possible in this field should not be impossible in others.

18. *Recommendations regarding Stock-holding arrangements.*—We have carefully considered whether the existing system of stock-holding should be changed and responsibility transferred to the disposal authority. This would clearly be a more logical arrangement. Complete knowledge and direct control of what there is to dispose of will enable the seller to make more satisfactory arrangements for inspection of goods by buyers and generally to discharge better his obligations to the buyers. A transfer of control will necessarily have to be accompanied by a complete and joint verification of stores by two authorities—the one handing over and the other taking over. This method of verification will definitely produce more accurate results than any other.

Against these advantages should, however, be set numerous practical limitations and difficulties. Firstly, transfer of control is immediately possible only in the case of depots the entire contents of which or a distinct and separate portion thereof have been declared surplus. For the rest it could be accelerated with the co-operation of declaring authorities. A more important difficulty is staff. The existing civilian personnel could be taken over as they are, but replacements will have to be found for the military staff. This will by no means be easy and will certainly involve delay. There is further little reason to suppose that the new staff will be better equipped or better qualified. In the matter of security arrangements military control will on the whole be more adequate than civilian control. Taking all factors into account we consider that at this stage there would be no advantage in transferring the function of stock-holding to the Director General of Disposals.

### III—METHODS OF DISPOSAL—GENERAL

19. *General Principles of Disposals.*—The following main principles have been laid down by the Disposals Board, with the approval of the Government of India, to govern the disposal of surplus stores :—

- (i) To release stocks at a rate which, while fast enough to get the goods into the hands of consumers where they are most needed, will not cause the internal market to be so flooded that there are adverse repercussions on internal economy or production plans.
- (ii) To ensure that the goods are sold to the ultimate consumer at prices which are reasonable in comparison with current prices of similar articles, and to prevent an unnecessary number of intermediaries or profiteering by middlemen.
- (iii) As far as possible, to use the normal trade channels for distribution with a view to ensure that the usual traders or manufacturers as well as the ultimate consumers in different parts of the country got their fair share of the quantities available.
- (iv) To consider the requirements of the Government of India, the Provincial Governments and the States ; for their own use before the release of any goods to the civil market.

It will be observed that these principles combine a statement of objectives and of the means regarded as necessary to attain those objectives. The avoidance of injury to indigenous industry and ensuring that the consumer pays no more than reasonable prices are the objectives ; the use of normal trade channels and elimination of unnecessary middlemen are the means. The emphasis on speed of disposal is relatively light and is more implied than explicit. Speed is prescribed more for the purpose of enabling goods to get in the hands of consumers than for the purpose of clearing stocks quickly in order to prevent deterioration and ample release of storage space and administrative personnel engaged in the custody of stores. The emphasis on price is mainly on its reasonableness to the consumer in relation to current market prices ; the financial interest of the owner of the surpluses in obtaining the best possible prices being a relatively subordinate consideration. The maximum employment of normal channels of distribution, it was assumed, would not only cause least disturbance to internal economy but would also ensure for the consumer good service and reasonable prices.

20. These principles were given wide publicity at the time they were enunciated in 1944. They were recognised as sound and we believe their acceptance caused general satisfaction. It is therefore not surprising that the public has sought to judge the actual performance of disposal in the light of the promises made. The gist of the public criticism we have heard is that on the whole the principles enunciated have merely remained pious wishes and that actual disposal policy has followed quite different lines. In particular, it is stated that distribution through normal trade channels has been the exception rather than the rule, and that so far from unnecessary middlemen having been eliminated, the most striking feature of Disposals has been the upsurge of a new class of middlemen who have largely succeeded in capturing a large share of disposal business to the detriment of the established trader as well as the consumer. Such a picture is, we think, overdrawn, but it is not without an element of truth. At the time the basic principles governing disposals were formulated and announced, many practical difficulties limiting their operation were not and indeed could not be fully envisaged; and there has, therefore, been—to a considerable extent legitimate or unavoidable—some deviation from them.

21. We proceed therefore to consider how far the principles have been acted upon; where they have been modified or abandoned in practice; and why. Before we do so, however, it is necessary to emphasise certain limitations of methods inherent in the disposal by a Government Department of surplus stores. These flow from the character of surplus stores and their location. To a considerable extent surplus stores are either unsuited or not quite suited for civil use in the form in which they exist. Their physical condition varies from brand new to complete scrap. They are clearly not the kind of stores which an ordinary commercial organisation will voluntarily choose to stock for sale. Their location has been determined by purely military considerations, and can therefore have little relation to the needs or convenience of the market. For reasons which we have already stated that we regard as inevitable the Disposals organisation is not the stockholder of surplus stores. The position of the Director General of Disposals is not, therefore, comparable to that of the head of an ordinary business organisation. He is not in a position to guarantee quality (or even quantity) or render services such as delivery at the required place, which are usual in commercial practice. Under these conditions the sale practice and methods of the Director General of Disposals must necessarily differ from ordinary commercial practice. It might be asked why these conditions cannot be changed. There is at first sight nothing to preclude the Disposals organisation from re-conditioning surplus goods, or converting them to forms suitable for the civil market, and transporting them to the most advantageous points of sale, before actual disposal. In our opinion, however, such elaborate preparation for sale would be a task which a Government Department is wholly unfitted to undertake; and it would be hardly worth while even were it possible, to organise what in effect would be a colossal Industrial undertaking merely for the very temporary purpose of disposing of surplus goods. The adoption of the principle of disposing of surplus goods "as is where is", leaving it to the purchaser to find and serve the consumer, was the only sound and practical course to take. It has been on the whole consistently followed, and in fact there have been only two exceptions dictated by special considerations. The first is the recent decision to direct iron and steel from where they are to the stockholding yards under the control of the Iron & Steel Controller, to enable him to pool surplus steel with current production; the second is the movement of American surpluses located in depots in Assam to Calcutta.

22. The conditions of contract under which surpluses are sold have, therefore, had to be framed with a view to place on the buyer entire responsibility for what he buys. The relevant clauses of the conditions of contract are quoted below :—

- (i) The goods are sold as they lie. They shall be removed by the buyer with all faults and notwithstanding any errors or mis-statements of description, measurement, weight, enumeration or otherwise and without question on the part of buyer, and no claim shall lie against Government for compensation nor shall allowance be made on account of any such faults, mis-statements or errors although the same may be of a considerable nature. In particular the description of the goods may be identical with a similar description of goods in some previous sale by tender but no reliance must be placed on any such description. The buyer should satisfy himself thoroughly as to what is offered for sale before submitting his tender and may inspect the goods prior to tendering and shall be deemed (whether or not such inspection shall have in fact taken place) to have had notice of all defects and faults whether rendering the goods unmerchantable or otherwise and any errors and mis-statements as aforesaid which he might have discovered on inspection and shall not be entitled to any compensation on account thereof.
- (ii) The goods shall be and remain in every respect at the risk of the buyer from the date of acceptance of this offer by the Director and Government shall not be under any liability for the safe custody or preservation thereof from that date.

These conditions are unlike any to which a buyer has ordinarily to submit himself. They render the business of buying surplus goods difficult, inconvenient and risky for the normal trader and even more so for the consumer. Inspection of goods may involve long, inconvenient and expensive journeys with no certain prospect of successful results. Buying without inspection involves risks which the normal trader would generally be unwilling to take. The natural result has been business inevitably flows into the hands of those who are prepared to bear these inconveniences and risks. A speculative business will attract only speculative buyers, who cannot but be expected to discount their risks fairly heavily. These speculators, whether they are people engaged in normal business but prepared to incur greater risks because of the prospect of high rewards, or brokers and agents who have as it were specialised in disposals business, no doubt perform some service ; but one is left with the impression that the reward is often out of proportion to the social value of the service rendered. It might be mentioned at this point that the conditions of sale are not solely responsible for the emergence of this type of buyer. They have acquired a specialized knowledge of disposals procedure, with which members of the public and even the ordinary trader are usually unfamiliar ; and it is no doubt a convenience for officers of the Department to be able to get into touch with possible buyers through agents or brokers whose acquaintance they have already made in earlier transactions. These and other factors we shall have occasion to mention later in greater detail ; but for the moment the point of importance is that the necessity to sell surplus stores " as is where is " imposes certain limits on the practical application of the general principles originally enunciated.

23. *Effects of Disposals on Indigenous production.*—Among the original objectives laid down, that of avoiding injury to indigenous industry or upsetting the market by dumping goods in too large quantities, has been achieved

with little difficulty. There have been few cases of surpluses in quantities likely to compete seriously with current indigenous production, but productive capacity, not to mention the actual production, of most of India's industry and particularly of major industries like steel, textiles, cement, paper, etc., is considerably less than what is required to meet current demand in full. Surpluses in these categories, therefore, present no problem; they relieve the public without any embarrassment to the producer. Tyres have been an exception; the industry is more or less in a position to meet current demand, but surpluses have mostly been of size or type either not required or not popular in India and the solution has, therefore, been found in giving permission to export. Certain categories of fine chemicals and drugs and medicines are available in such immense quantities as might be prejudicial to trade and industry; but whether the remedy of export will prove to be enough or the more drastic remedies will have to be resorted to depends on the volume of future declarations. The problems created by surpluses of goods not indigenously produced in quantities greatly in excess of demand are of a somewhat different character. Such cases are more common and are likely to become commoner in the future. Some medical and veterinary stores, surgical instruments, certain types of naval craft and possibly certain ranges of engineering stores and motor vehicles are likely to present difficult sales problems. Regulation of import, and freedom, even encouragement, to export are possible remedies. Their application, however, requires care and caution; and a wise export and import policy must be based on a liberal, even generous, estimate of internal requirements.

24. *Disposals to Priority Indentors.*—Another objective which has been successfully achieved on the whole, is the prior fulfilment of the requirements of the Government of India, Provincial Governments and other priority indentors, though we have had some serious complaints from universities and others. The procedure has been to keep priority indentors continuously informed of surpluses as they arise for disposal, and to refrain from sales to the civil market until known demands from them have been met. Prices are determined on the following basis; Sales to Departments of the Central Government, Provincial Governments or Indian States Governments or Local Authorities are effected at Government's current buying rates for identical or similar stores. If there are no Government current buying rates, prices are based upon current market prices. Where there are no current market prices, sales are effected by negotiation.

25. Provincial Governments and some Indian States have designated "focal" officers in whom correspondence with the Disposals organisation is concentrated. These arrangements for enabling priority indentors to exercise their rights and to obtain their requirements at reasonable prices are in theory satisfactory, but their practical working has been somewhat clogged by red tape on both sides. One general complaint is that the time (usually a month) allowed to priority indentors to make up their minds is inadequate, especially where prior physical inspection is necessary. The latter in any case is an inconvenience and in the case of surpluses situated in distant depots often more troublesome than it is worth. We understood from officers of the Bombay Government that in their experience it is not worth while for them seriously to attempt to obtain surpluses situated outside the province. Where priority indentors choose to forego inspection and attempt to get the information necessary for them by correspondence, considerable delay occurs, as the Disposals Organisation is usually not in possession of the information and has to take steps to obtain it. The price basis namely, current buying price to Government or current market price, with suitable allowances for depreciation and

condition, is sound enough in principle but not always easy to apply. Market prices are often elusive and the temptation to determine prices to priority indentors on the basis of book values which often have little relation to market prices, is difficult to resist. There have, therefore, been cases of sales to priority indentors at prices somewhat higher than those realised from the civil market; but priority indentors have this advantage over other buyers, that they have been able to pick and choose and have been in a position to negotiate prices in the more important cases. A point of more substance is that goods, particularly capital goods, required by priority indentors and likely to be declared surplus are not yet available for disposal. The Disposals organisation should by now have a fair knowledge of these requirements and it would be very desirable to hasten declarations of such goods. Early in 1946 a special effort of this kind was made and the Disposals organisation achieved considerable success in providing Provincial Governments with vehicles urgently required by them for security purposes and for the transport of foodgrains. We suggest that a similar special drive should be organized to meet priority requirements of capital goods out of the heavy surpluses of engineering stores now under declaration.

#### IV. METHODS OF DISPOSAL—TRADE CHANNELS

26. We come now to the question whether maximum use has been made of normal channels of distribution; whether unnecessary intermediaries or middlemen have been prevented; and whether the ultimate consumer has been enabled to obtain surplus goods at reasonable prices.

27. *Cotton Textiles*.—Goods under statutory control obviously call for disposal through the channels and at the prices prescribed by the Control. The two most important categories under statutory control are cotton textiles and iron and steel. These are under control for the reason that they are in short supply; and logically therefore surpluses should be treated as additions to current production, and disposal should proceed strictly in accordance with Control. We were surprised to learn that until very recently the disposal of surplus textiles did not conform strictly either to the Control or even to the Disposals policy prescribing priority to the needs of the Central and Provincial Governments. Two important departures were made. Firstly, surplus cloth of controlled varieties which are in keen public demand was used to advance the sales of made-up garments and other uncontrolled items such as canvas and duck which by themselves would have been difficult to sell except at a sacrifice in price. Secondly there was a departure in price policy. Under the Control, the retail price at which the cloth must reach the consumer is ex-mill price plus 20%. The Control recognises certain margins of profit for dealers in the intermediate stages. Strict conformity with the Control requires that a dealer at any given stage should get surplus cloth at the same price as that of ordinary (non-Disposals cloth). Surplus cloth was actually sold to dealers at a price which left them with less than the recognised margin of profit. This was defended on the ground that to the dealers concerned, who have already got their normal share of ordinary business the handling of Disposals cloth is only an additional source of profit and they are therefore, content with a lesser margin on it. We believe that both these practices have definitely encouraged black-marketing and should never have been adopted. They have, however, now been discontinued as a result of a decision of the Disposals Board taken on the 3rd January, 1947.

28. *Iron and Steel*.—In the case of iron and steel there is strict conformity with the control. Towards the end of 1945, when some indication of the quantities of surpluses likely to be thrown up was available, the Iron and Steel Controller, formulated plan of disposal which was accepted by the Disposals Board. This plan merely provided for the extension to surplus steel of

the existing control arrangements for distribution. The progress of declaration of surpluses was rather slow till the end of March, 1946 and the progress of actual disposal was even slower. By a notification No. 454 dated 25th March, 1946 control over distribution of steel was virtually removed while price control was maintained. This step was taken in the expectation that with the drastic reduction in the Defence demands for steel, supplies available would be fairly adequate to meet demands, or at least adequate enough to the effective maintenance of price control unsupported by the normally necessary sanction of distribution control. This expectation proved false and control over distribution had to be reimposed in July. About a month after control over distribution was given up, the Director-General of Disposals took over direct responsibility for the disposal of surplus steel with the exception of three categories, where allocations had still to be decided by the Iron and Steel Controller. The reintroduction of control logically necessitated retransfer of disposals responsibility to the Iron and Steel Controller. This was, however, effected only late in September 1946 when it has decided that all stocks of surplus iron and steel should be moved from the holding depots to the Iron and Steel Controller's transit depots and that thereafter they should be sold to registered stockists or fabricators in the same manner as new production. During the period the Iron & Steel Controller was out of the picture, surpluses declared amounted to slightly under 1,00,000 tons. Over 60,000 tons were disposed of by the Director General of Disposals during this period. Monthly catalogues showing surpluses available for disposal were prepared and exhibited at Headquarters and at Regional Offices for the information of intending buyers. Advertisements were issued inviting offers for minimum lots of 300 tons and where offers exceeded the stocks available, preference was given to persons bidding for a complete lot. This procedure certainly resulted in quick disposal; whether it resulted in equitable distribution among consumers at the statutory maximum prices is doubtful. As conditions of scarcity prevailed throughout the period, it is very probable that the bulk of the iron and steel sold at controlled prices during this interregnum did not reach the consumer at controlled prices appropriate to that stage. No criticism can, however, be made of disposals effected during the period when distribution was legally not under control; but it would have been more appropriate to discontinue disposals to other than controlled stockists from the time distribution control was reintroduced.

29. The rate of disposal after September, 1946, has been definitely slow. Declarations in the last quarter of 1946 amounted to 73,000 tons. Out of these approximately 12,000 tons have been allotted to registered stock-holders in the Provinces of Bengal, Bihar, U. P., Assam and Orissa, and about 15,000 tons of steel lying in Lahore have been similarly allotted to stock-holders in the Punjab, Punjab States, N.W.F.P., Jammu, Kashmir and Delhi. Certain quantities have also been supplied direct to Provincial Governments for use on their own priority schemes. For the rest disposal has been more or less held up pending the physical transfer of stocks from the scattered points at which they are now lying to Iron & Steel Controller's transit depots—a process which is limited by the availability of transport. Apart from this it is also part of the policy of the Iron & Steel Controller not to hurry unduly the disposal of surplus steel of standard lengths and quality, but to conserve them for distribution to those most in need over a longer period.

30. *Some Other Commodities.*—Where rigid control of production and distribution right up to the consumer does not prevail the use of trade channels is somewhat difficult. It has, however, been attempted with some success in a limited though important range of commodities.

31. Woollen Piece-goods might have been expected to be completely taken up by the recognised dealers in the then prevalent distribution scheme, since



they were offered at prices, in conformity with prevalent control prices. Curiously enough the response was insufficient, although there was no reason to suspect that the goods themselves were not in keen demand.

That there was demand was evidenced by the fact that at these very prices the surpluses were in fact taken up by other dealers not included in regular scheme. A similar situation arose in the case of woollen yarn which had been imported on Government account during the war. Distribution at fixed prices to the members of the Knitter's Association, for whose use in the fulfilment of Government contracts the yarn had been originally imported, did not meet with complete success in the initial stages and sales had to be made to other knitters but at the same prices. Both these cases bring out one of the limitations on the use of trade channels. Unless the trade channels selected include all those engaged in the business there is the danger that the narrower class of recognised dealers might attempt to hold off purchases in the hope of getting better terms. In that case both the interest of Government and of the public require that sales should be extended to a wider circle.

32. Other instances of the use of established channels of distribution are petroleum and lubricants, certain proprietary articles, and cement. The Oil Companies have a well organised machinery of distribution, the use of which is the only practicable method of disposal. Surpluses of certain types of oils are far in excess of civil requirements. The technical problems which are involved in blending, mixture and other methods of adaptation to civil uses are best solved by the existing organisation of the Oil Companies, as is the regulation of imports in the light of the solutions so reached. The main basis for the price at which sales have been made to the Oil Companies has been replacement cost.

33. In the case of certain proprietary articles the basis of disposal formed part of the original contracts under which purchases were made. Disposal has therefore followed these agreements. In other cases the rule is that the proprietors should be given first refusal, and the rule has been generally followed.

34. In the case of cement where it is very essential that what is sold to the consumer is in good condition, arrangements have been made with the Cement Marketing Company of India for the sale to it of all surplus cement originally supplied by them, other brands being sold locally by the stockholder.

35. Paints, chemicals and drugs appear at first sight to be eminently suitable for distribution through the trade, especially as they were during the war under some form of control. Actually, however, attempts at disposal in this manner have failed, partly owing to the wide range and variety of the materials and partly to the lack of sufficient organisation in the trade itself.

36. The earliest attempt in the utilisation of trade channels for disposals was made in the case of vehicles, but ended in failure. The first official statement of disposals policy on this subject was made by the Hon'ble Member for Supply at a conference of the motor trade held in Bombay on the 8th and 9th of May 1944. He announced that Government's general disposal policy was—

- (a) to disturb as little as possible the economy of the country ;
- (b) to utilise the usual channels of commerce and Industry ;
- (c) to obtain a reasonable price for the material ; and
- (d) to endeavour to ensure best beneficial use of the materials available ;

and that the disposal of motor vehicles by Government would be made in accordance with this policy, also bearing in mind the requirements of road transport.

In pursuance of this policy a scheme of disposal was formulated providing for the active participation of the industry. The country was divided into five zones and in each zone a Regional Committee was appointed consisting of representatives of the trade. A Central Committee was constituted to co-ordinate the work of the Regional Committees and to advise Government on policy. This Committee met in June, 1944 and evolved a scheme essentials of which were inspection and selection by Regional Committees out of surplus vehicles fit for reconditioning, and the allocation of these to dealers. The Committee also evolved formula for determining the price at which such vehicles would be allocated to dealers. The main idea underlying the formula was that dealers should get the vehicles at a price which would enable them after incurring the expenses necessary for reconditioning and making a reasonable profit to sell vehicles to the public at the controlled prices then prevalent. Details were worked out in full and a scheme was launched with considerable enthusiasm, but unfortunately as it turned out later, under conditions which promised little prospect of success. The schemes would have had a chance had there been surpluses of enough vehicles really fit for reconditioning. But the greater part of early declarations was more in the nature of motor scrap than motor vehicles. Even by the end of August, 1945, that is, more than a year after the introduction of the scheme the number of vehicles accepted by the Regional Committees as fit for reconditioning was below 200. Apart from this, dealers began to consider that the scale of reconditioning charges originally estimated was too unattractive. The immediate problem was for the time being solved by resort to auction and it was decided to postpone the operation of the scheme until sufficient numbers of attractive vehicles were reported. In January, 1946, a revised plan was placed before the Disposals Board for consideration. This proceeded on the assumption that manufacturers or manufacturers' representatives would not be interested in used vehicles. Provision was therefore made for the sale of new or good vehicles to them at negotiated prices based on the current price of new vehicles. In the case of used vehicles an attempt was still made to follow trade channels in the first instance by auctions restricted to accredited dealers on the War Transport Department's list. In case there was a disposition on their part to take advantage of this privilege of closed sale the safeguard of a public auction was provided. The Board evidently considered the data available as incomplete and ordered further examination of the scheme in consultation with the motor trade. Subsequent events showed that the manufacturers were not interested in a scheme of that character except on terms extremely disadvantageous to Government. In any case the scheme was abandoned for all practical purposes, the course of actual disposal was sale of good vehicles—except a few specialist types—to priority indentors, and the balance by auction, tender and negotiation.

37. That the original scheme of disposal of vehicles failed is neither surprising nor altogether to be regretted. One reason for the failure was that vehicles though good enough to be reconditioned by the trade interests represented in the Regional Committee were few in number. Another and probably equally important reason was the reluctance of the trade to be content with the level of reconditioning charges or the margin of profit originally fixed. Even if attractive vehicles had been available in sufficient numbers as was actually the case in 1946, the scheme would probably have still encountered difficulties in the fixing of reconditioning charges and dealer's profits. The reason for this is that the regular dealers embraced by the scheme by no means fully represented the capacity in the country to absorb used or scrap vehicles and put them to use. The very fact that auctions brought forth purchasers at prices considered

unattractive by the regular dealers is proof of the existence in the country of a large number of petty garages and workshops which are capable of handling surplus vehicles.

38. *Conclusion.*—The application of the method of disposal through established trade channels has thus been limited. For this method to be of benefit to the public, certain conditions must prevail. The trade channels selected must be fully representative and not confined to a restricted circle. The goods must be of types which the trade are accustomed to handle. They must be sufficiently widespread throughout the country to secure fair distribution. When the ultimate prices to the consumer are not controlled by law, the trade channels must be sufficiently organised and enlightened to conform to fair trade practices. If these conditions do not prevail, there is no particular advantage in the method; on the contrary it might only result in conferring a partial monopoly on a particular class, to the detriment of the consumer and the public purse. Bearing these limitations in mind, we think that on the whole a reasonable attempt has been made to carry out the policy of using trade channels where beneficial. The scope for the further extension and development of this method is very restricted, particularly as future surpluses are likely to include a progressively smaller proportion of goods suitable for disposal in this way. But to the extent that there is, the method must continue to be used.

## V. METHODS OF DISPOSAL—AUCTION, TENDER AND NEGOTIATION

39. Whatever cannot be disposed of by direct transfer to priority indentors or through special arrangements with organised channels of distribution, must necessarily be sold by the only other methods available—auction, tender, or negotiation, or some variation of these three methods. Generally speaking, these methods involve the use of middlemen, and the scope for actual consumers participating in the business is restricted. The ordinary consumer who requires common articles of consumption in small quantities is practically shut out; but that must be so under any method short of actual retail sales by the Disposals Organisation. But that need not necessarily be the case with industrial consumers such as factories and workshops, who require raw materials and machinery for use and not for sale. There is a widespread public demand that the sale of surplus goods needed by industrial consumers should be organised in a way that will enable them to obtain their requirements direct without the intervention of a middleman. Whatever be the possibilities of making suitable arrangements for this purpose—such arrangements will in any case be difficult—the fact remains that, broadly speaking, the method of auction, tender or negotiation will result in sales to middlemen and does not permit of any direct protection of the interests of the consumer. It is therefore all the more important that the consumer should not be deprived at least of the only indirect protection left to him, namely, competition among the middlemen, who buy surplus goods. In other words, the methods of auction, tender and negotiation should be so applied as to secure as wide a distribution of goods as possible among middlemen. We proceed to examine how far such a result has been obtained.

40. *Auction.*—The method of auction has been used for the sale of surplus goods proper only to a very restricted extent. It has, however, been the invariable method for the disposal of salvage and 'process scrap'. Salvage consists mostly of goods unfitted for use in their existing condition. A steady stream of salvage and 'scrap', a large part of which consists of motor vehicles beyond the possibility of reconditioning or repair, has been flowing into military salvage depots for auction *in situ*. Up to the end of 1946, 597,000 tons of salvage and 'process scrap' arose for disposal of which 513,000 tons was

sold, the realisations amounting to 17.28 crores, but realisations by sale by auction of surplus goods (excluding vehicles) amounted only to 26 lakhs according to the statistics supplied to us. The main elements are textile articles (6.3 lakhs), timber (7.1 lakhs) and containers (1.4 lakhs). About 3,200 surplus vehicles were sold by auction by the Regional Commissioners of Bombay and Calcutta. It would on the whole be true to say that auction has been resorted to only after all other methods have failed or where it appeared from the outset that all other methods are bound to fail.

41. Auctions are conducted by professional auctioneers employed by the Department on a commission basis. For this purpose the country has been divided into regions and generally in each region there is a panel of auctioneers. They are remunerated by a percentage on each slab of sales made every month, the rate on the lowest slab for the first twentyfive thousand rupees being two per cent and declining to quarter per cent above two lakhs. The auctioneer is required to advertise the auction at his own expense by the issue of handbills, posters, etc. It is also his responsibility to collect earnest money from the successful bidder on the fall of the hammer and the sale proceeds within a week of it. He is not, however, permitted to knock down to the highest bidder. Every auction is supervised by an officer of the Disposals Organisation, and the hammer falls only after this officer indicates that the highest bid is acceptable to Government. Usually a junior officer of the rank of Assistant Director supervises auctions and he is guided by reserve prices determined largely on the basis of the results of the previous auctions. He is given little discretion to accept bids below the reserve prices.

42. We have heard many complaints regarding the working of auctions. A good many of these inevitably spring from the defects of custodianship. Weighing and measuring arrangements are very inadequate and bidders have to judge for themselves by mere view not only the character and condition of the stores but also the quantity. Several glaring cases have come to our notice where the actual quantity in a lot was absurdly less than what it was notified to contain. Another general complaint is that between the time of auction and the actual removal of the goods, for which a period of 21 days is allowed, the contents of the lots change,—whether for the better or for the worse depending on private transactions between buyer and custodian staff. Better preparation, segregation and measurement of lots can go a long way to reducing—but we are afraid not for eliminating—these defects and increasing both the popularity and financial results of auctions. On the purchasers' side rings are common and it is the experience of many officers that re-auctions are held by the rings immediately after the regular auction. No one has yet discovered a sure method of breaking rings, although we were interested to hear from a long established and experienced firm of auctioneers that any professional auctioneer worth the name ought to be able to know how to do it. If auctions are made more attractive and popular by increasing the range of useful goods offered, rings will become less prevalent. It is essential that what has been advertised for auction should always be offered for sale. The practice of withdrawing lots at the last moment and thereby causing disappointment to many who might have travelled long distance to attend auction is unhealthy and destroys the foundation on which the success of auctions depends. Equally unsatisfactory is the registration of the highest bid for subsequent confirmation by higher authority especially if orders of confirmation are delayed or sales effected by negotiation whether to highest bidders or others. With all its defects, many of which we believe can be reduced though not altogether removed, auction has on the whole worked satisfactorily to the extent it has been used, particularly in the case of used motor vehicles. We think that it is capable of being used much more extensively.

than at present. It has been suggested that auctions will attract only the 'Kabari' type of buyer and will generally keep out those engaged in trade and industry. We see no reason to think that it should be so if goods offered for sale by auction include the type of goods required by trade and industry.

43. *Tender and Negotiation.*—The method of tender would at first sight appear to be the most natural method of sale to the best advantage of both the Government and the public. It has two forms. One is the invitation of offers by advertisement in the press and the other is the issue of individual invitations to a limited circle of traders likely to be interested in the article. The latter method has the advantage of being less expensive than advertisement in the press and can suitably be adopted if the selection of firms to whom invitations are issued is properly carried out and likely buyers are not omitted. Both forms of tender depend for their success on the existence of competition among buyers. Considering that general conditions of scarcity still prevail, one would have expected that this method would have yielded satisfactory results in the wide range of surplus goods which are suitable for use by the civil public either in their existing form or with a small measure of adaptation. In practice, however, this has not been attained. On the other hand the most striking feature of disposals has been the failure of tender as an effective method of sale. As a first step tender has been adopted very widely, but the response has been regarded as so unsatisfactory that more often than not actual sales have been made by other methods, broadly embraced by the term negotiation. The limits of its actual success or rather the extent of its failure as an effective method will be apparent from the fact that out of total sales made upto the end of 1946 amounting to 40.4 crores, sales made to the highest tenderers have accounted for only 2.61 crores. On the other hand sales made by the method of negotiation amounted to 22.92 crores. For statistical purposes, all disposals except transfers to priority indentors, sales by auction and by tender are classified under the head 'Negotiation'. Under this head, therefore, are included sales of cotton textiles, woollen piece-goods and yarn, silk, iron and steel, non-ferrous metals etc., which as we have seen have been sold by methods which cannot be regarded as negotiation in the sense of sale by private treaty. These and cotton parachutes as also some sales made to foreign Governments should appropriately be excluded to get a correct idea of the real extent of negotiation. On a rough calculation, the excluded elements account for 11.07 crores, leaving a balance of 11.85 crores, which is  $4\frac{1}{2}$  times the value of sales effected to the highest tenderer.

44. We regard the failure of tender and the emergence of negotiation as the principal method of disposal to the public, as presenting the central problem of disposals. Negotiation has been the principal target of public criticism. In the public eye it has enveloped disposals operation in an atmosphere of mystery. It is obvious that the method is open to abuse; and what is even more important is that the impression that it has been abused is difficult to remove even when it has been applied with care and caution. When a Government is engaged in business it is not enough that the right methods should be adopted; it is equally important that the public should have confidence that the methods adopted are right. We have, therefore, devoted considerable attention to this problem. We have gone through the records of many transactions. We have discussed the problem with officers of the Department and with representatives of commercial bodies. We have attempted to find, if possible, adequate answers to the following questions:—

Why has tender failed, in the sense that it has not brought forth offers to buy at reasonable prices? Has this failure been due to the inherent defect of the method or to other conditions? If the latter,

could those conditions have been changed? To the extent they could not, was negotiation the only alternative or the right alternative? What have been the effects of negotiations in the manner in which they have actually been conducted?

45. The success of tender essentially depends on the existence of a wide field of competition. Therefore anything which reduces the number of tenderers or puts difficulties in their way or which induces them to hold back serves to destroy tender. We have already referred to the fact that the conditions of contract which throw the entire responsibility for judging the quality and condition of goods on the buyer, discourage a certain class of buyer who likes certainty and is not inclined to take unusual risks. The appeal is therefore confined to the class of buyer who is ready to face difficulties and inconvenience of physical inspection of the stores or prefers to take a speculative risk. In either case a distinct tendency to quote low will arise. Tenders have usually to be accompanied by deposit of earnest money, generally 10% of the total value of the tender. Insistence on the deposit of earnest money is a necessary precaution to eliminate frivolous offers but there has unfortunately been a great deal of delay in the return of deposits to the unsuccessful tenderers. Earnest money has necessarily to be locked up from the time of deposit to the time of decision but there is little justification for any further delay. We have been surprised to note that office arrangements for carrying out this simple process are confused and inadequate. We do not suggest that this is a major reason for the failure of tender. Nevertheless, it is true that it discourages buyers of modest means from tendering as often as they would have liked; and in the case of large transactions involving deposit of lakhs of rupees it definitely induces preference for negotiation on the part of the buyer. While these are important minor reasons for the failure of tender, they do not explain fully why tender has not elicited prices which subsequently were actually obtained by other methods. We have been unable to find a complete and satisfying explanation; but it is much easier to see *how* a situation has developed where both the public and the Disposals Organisation have lost confidence in tender. For this we think that the initial methods adopted to obtain better prices than those thrown up by advertised tender are mainly responsible. If a series of sales had been made to the highest tenderer, even at prices regarded as low, it is quite possible that the easy profits made by buyers in those transactions would have excited competition and led to a better response to subsequent tenders. A similar result might have ensued if an unsuccessful tender had been followed up, as a rule, by fresh invitation to tender at or above the price announced as acceptable to Government. In either case confidence in the system itself would have been preserved. The first method was not adopted. Cautious experiments with the second have been made since December, 1946. Until then the general practice was to follow up tender by negotiation with the highest tenderers as well as others. Judged by the standard of the prices thrown up by tender, the results achieved were always more favourable to Government. But the total effect was in the nature of a death blow to the system itself. Advertised tender has come to be regarded not only by the public but by the Department also as nothing more than the opening gambit in the process of negotiation. The knowledge that a negotiation will generally follow the opening of tender or that a negotiation could be induced by a higher offer, removed whatever inducements there might have been for tenderers to quote their highest to start with.

46. It has become a fairly common practice for tenders to include an offer to negotiate, a fact which is itself evidence of the futility of the tender. A vicious circle has thus come to be established; negotiations have to be undertaken because of the unsatisfactory results of tender; the fact that

negotiations are undertaken makes tender even more unsatisfactory than before. This effect of negotiation on tender is well understood by officers of the Department, and the following note recorded by one of them on a particular case is of interest :—

“I think we should, as far as possible, accept the highest offer submitted against our advertised tender, as there is already a feeling among our buyers that we do not consider our advertised tender as a serious tender but merely use it as a weapon to negotiate higher prices later. The result is that many firms do not quote against the tender but expect to be called in for negotiation, while other firms purposely quote low to leave a margin for increase when called for negotiation. In fact some firms even state in their offer ‘open to negotiation’.”

Nevertheless the tendency has been to prefer what appears to be the immediate advantages of negotiation to the rigorous pursuit of a policy designed to break the vicious circle—a policy which would have involved at least a temporary suspension of the method of negotiation and the substitution of a normal form of tender by a method which will have provided for full publicity, competition and certainty.

47. *Catalogues.*—A slightly modified form of the open tender system was introduced during the last quarter of 1946 by the publication of catalogues. This was originally commenced in August 1946 primarily as a method of informing priority indentors and the public simultaneously of what there was for disposal. It was later modified by the incorporation in them of a set of forms on which offers to purchase could at once be made. Separate catalogues were published for each broad category of stores. The publication of the catalogues was given wide publicity by advertisement in the press. In order to inspire confidence the foreword of each catalogue contained announcement in bold type that sale through the medium of the catalogue is the principal method of disposal. To make this system more popular the deposit of earnest money with offers to purchase was dispensed with in spite of the risks involved. The estimated value of the stores was given, wherever possible, as a guide to the intending purchaser. The way to obtain facilities for inspection was described and a month was allowed for the receipt of offers. On the whole the catalogues were attractively got up and considerable trouble was taken to ensure wide and early distribution. Copies were made available to Chambers of Commerce and Trade Associations at slightly reduced prices. The publication of these catalogues certainly served a very useful purpose by dissemination of information, but it has been a great disappointment as a method of sale. Because of the enormous number of items involved, we have been unable to get full statistics but it is clear that the response has been very poor. Tenders were received only for a fraction of the stores in the catalogues and the majority of them had to be rejected. The total value of sales made by the acceptance of highest tenders against the catalogues has been comparatively low and definitely out of all proportion to the heavy publicity expense incurred. The failure of the catalogue system is due to practically the same reasons which had previously nullified tender. It differed from the normal form of tender only in essentials. For all practical purposes it was the same system in a different guise in a consolidated form. The only significant differences were the price guidance provided and exemption from earnest money. The former, however, was quite inadequate as the estimated values given were not the result of close study of current market conditions. They were on the whole based on book values often bearing no relation to current values and expressed in decimals of a rupee—a method which did nothing but confuse the ordinary public. The inclusion of large numbers of petty quantities

in the catalogues not only increased the expense of publication but also reduced its appeal and even utility by hiding a little wheat in a lot of chaff. For instance, the third catalogue of the Textiles Section dated 23rd November contained 232 items of approximately 2·94 crores estimated value. Of these 91 items each of estimated value exceeding Rs. 3,000 accounted for 2·93 crores. The other 141 items each of less than Rs. 3,000 were worth only about a lakh; there were actually 36 items of under Rs. 100 with a total estimated book value of Rs. 1,300. We heard many complaints from the public on this and similar small points and suggestions for improvement. It is not necessary to discuss them in detail as we think that it is not worthwhile to continue the publication of catalogues in their present form.

48. *Advertisements with Reserve Prices.*—A more important and recent development was what has come to be known in Disposals terminology as 'The Weekly Selection' or 'Shop Window'. The essence of this method is the invitation of offers by advertisement in the newspapers with the express stipulation that no offer below the named reserve price will be considered, and a guarantee of acceptance of the highest offers at or above the reserve price. These advertisements have been issued since December once a week for items specially selected as likely to prove attractive to buyers. Tenders received are opened in public by the Director General and his officers and decisions are taken on the spot in the presence of tenderers. Results achieved so far though not very significant in volume or value are encouraging. Details of the first six sales by this method are given in Appendix II, but the broad features are as follows :—

Date	No. of Items	Value of the reserve price	No. of items sold—part or whole	Total sale value
				lakhs
23rd December . . . . .	10	34·24	1	0·17
30th December . . . . .	9	95·28	5	20·01
6th January . . . . .	10	6·11	6	2·67
13th January . . . . .	4	56·11	4	8·57
20th January . . . . .	5	5·42	5	5·85
27th January . . . . .	8	26·24	6	7·00
Total . . . . .	46	223·40	27	44·27

Out of the stores offered, the value of which on the basis of the reserve price was 223 lakhs, sales amounted to 44 lakhs. This proportion is however misleading, because on the first occasion nothing was sold except one Ice Plant for Rs. 17,000 and on the 4th occasion, khaki shorts which could not be sold accounted for a greater part of the offer. We have not enough knowledge of actual market conditions to judge whether reserve prices had been fixed at too high a level in the case of the items which failed to attract enough offers. In one case at least a reserve price of Rs. 3 for khaki shorts appears to us definitely high considering that there were 15 lakhs of them for sale.



All that we feel competent to say is that it would be the right policy to fix reserve prices if anything on the low side. As this system establishes itself and the buying public begins to feel confidence in it, an attractively low reserve price will serve to stimulate competition and will not, in our opinion result in Government losing money. On the other hand, the sequence of a high reserve prices leading to failure of offers and subsequent sale by negotiation at a lower price is one to be avoided as far as humanly possible. Once such a sequence becomes established, tenderers will again be tempted to hold back in the hope of negotiating later at lower prices. This opportunity should not be given if the system is to be developed, as we feel it should, into the major method of disposal.

49. *Comments on Negotiation.*—The failure of open tender and the catalogue system which is only a minor modification of the same system, has left negotiations as the principal method of disposal to the public. There is no uniformity, and indeed there cannot be, in the way in which negotiations have actually been conducted except that the concurrence of a Financial Adviser is invariably taken. We have seen the records relating to a large number of negotiated sales and we have discussed with the officers of the Department and some of the Financial Advisers the various types of technique employed. Negotiations can be broadly divided into two classes, those which follow an advertised tender and those which are started without any such preliminary publicity. In the former class those who have made "serious" but not acceptable quotations in response to the tender constitute, so to say, the initial core of the negotiation. They are induced or given an opportunity to raise their bids. Negotiation, however, is not confined to them; and in fact the bringing in of other buyers or the creation of a belief that other buyers are in the field are necessary elements of the technique of negotiation. In several cases the highest tenderer has claimed a preferential right to buy at the highest price offered by a non-tenderer, but such a claim is not recognised. In the second type of negotiation, where there is no preliminary publicity negotiations are undertaken as and when buyers arise or can be "canvassed". There is no established or regular method of dealing with offers obtained in this manner. Sometimes when the Disposals Officer concerned thinks that a sufficient number of buyers have been brought into the field he commences a negotiation. Sometimes he recommends to the Financial Adviser the acceptance of any one of such offers which he regards as satisfactory. The other offers are regarded as evidence of the state of the market. Whether such a recommendation is accepted or further negotiations are pursued depends largely on the Finance Officers being satisfied that there has been sufficient competition and that the price obtained is inherently reasonable. In many cases sales are concluded by the acceptance, with the concurrence of the Finance Officer, of a single offer at a price which appears satisfactory. The entire process, thus, hinges on the individual judgment of two officers, of whom the Finance Officer has to rely mainly on the Disposals officer for the data on which to form a judgment. The role of the Finance Officer in negotiation also varies from the giving of concurrence on the facts available to him to active participation in the processes of negotiation. As a rule, in the more important negotiations the participation of the Finance officers is generally active. Where sales are concluded by negotiation after the failure of advertised tender the highest price thrown up by tender serves to some extent as a standard by which to measure the success of the negotiation; but it is clearly an insufficient and inadequate standard because, as already mentioned, tender prices themselves are influenced by the knowledge that negotiations are very likely to ensue. Where negotiations are conducted without the preliminary of

a tender, the only external standard available, namely, the rejected offers or the absence of other offers, is even more inadequate. There is of course always the independent standard of current market value and the rough guidance of book value. But while these can at best serve to show whether the price obtained was not unreasonable, they are inadequate to establish that the best prices were obtained.

50. The defects and dangers of the method of negotiation are evident, particularly where there has been no initial publicity. The whole process depends on the canvassing of buyers. This pre-supposes an accessible body of buyers to canvass. Every demand tends to create the corresponding supply and a circle of buyers more or less specialising in disposals business has thus arisen to meet the demand. We have no reason to believe that any deliberate attempt is made to confine business to this circle, but the tendency to regard it as the trade or the market is difficult to resist. The practice of negotiation confers an advantage on those who actively keep in touch with the organisation and thereby have access to information on which they can act with celerity. Even disregarding information obtained by illegitimate means, there is enough legitimate information available to those who interest themselves in this manner which is not available to the trade at large. A striking instance is the sale in last August of a large number of electric fans. After meeting the demands of priority indentors, about 25,000 were available for disposal to the public. The very sound method of fixing the sale price at the producer's maximum price under the Hoarding & Profiteering Prevention Ordinance then in force was decided upon. But no publicity was given and sales were made in lots varying from 200 to 1,000 against offers received mostly from persons not regularly engaged in the business. About half way through the sales it was decided to advertise, but even before the advertisement issued the remaining fans were sold out. Here there was no question of any illegitimate leakage of information, but the result was a distinct and undue advantage to those who happened to get the information. Buyers like those who got the electric fans are always on the lookout for bargains, and are very willing to be canvassed in a situation where tenders bring only low prices and any sale above the highest tender prices, even though below what they are worth to the buyer, can be represented as a bargain by both parties to the transaction. Where stores are not regularly advertised the advantages of proximity are even greater. We do not suggest that there is anything wrong in people interesting themselves in disposals business, but what is wrong is the belief or the assumption that those who display such interest constitute the entire market.

51. Our examination of negotiated sales does not leave the impression that prices realised were in themselves unreasonable, but it is impossible to say with any degree of certainty that the best prices were obtained. The reason for this mainly springs from the fact that there is generally no evidence to show that all sources had been tapped. A feeling of uncertainty is created even in cases where full publicity might have produced no better results. A few instances will illustrate this point.

52. In August last year about 800 tons of copper wire lying at Ledo and Chabua were sold by negotiation. The stores had not been advertised but offers were being received (these must have been verbal as far as we can see from the record) from people who came to know or happened to be informed

about the existence of the surplus. On the 29th of July the Deputy Director General noted as follows :—

“I have offered this store to a number of important and serious customers during the last two weeks, and this is the best offer that I have received. We have to allow for the fact that the stores are lying in an out of the way place. We have also to consider the fact that the stores may not be as good as new. The control rates mentioned by Mr. Khosla are reported to be retail rates and we are making a bulk transaction of about Rs. 10½ lakhs. I therefore think that the price we have got (*viz.* Rs. 65 per cwt.) is not unattractive.”

His proposal was accepted by the Director General and the Joint Financial Adviser. If the sale had gone through at that time there would have been no reason to think that a good price had not been obtained ; but before the sale was actually made the Deputy Director General himself received other offers and negotiations were carried on with four or five people as a result of which a price of Rs. 71 per cwt. was achieved.

53. A large quantity (8,000 cwts.) of potassium nitrate was sold in May last year to the highest tenderer at Rs. 20-14-10 per ton. The purchaser, however, failed to pay the price or remove the goods. The contract, which in the ordinary course should have been cancelled soon after this default was however kept alive for months longer and was not cancelled until December 1946. In October one purchaser, who must have come to know that this contract was bound to be cancelled sooner or later, sent a prepaid telegram confirmed by letter expressing his interest, though he did not quote any price. In December negotiations were started with another party who had similarly come to know that the potassium nitrate would be available for sale. The price negotiated with him namely Rs. 30-9-0 was considered so attractive that a proposal to advertise it again in the “Shop Window” was negatived. Here again, while it is true that the price realised was in itself satisfactory, even good, there is nothing to show that the party who had expressed interest (though neither his telegram nor his letter was ever acknowledged) in October would not have paid an even higher price, as he has repeatedly stated since by telegram and letter that he was prepared to do.

54. A third instance is the sale in September 1946 of 121 vehicles in the Ranchi Depot. On the 16th of September two offers were received—one for Rs. 3,81,550 and the other for Rs. 3,66,000. On the ground that the higher offer did not include an offer to negotiate further, while the lower did, the sale was made to the latter after he had raised his offer first to Rs. 3,80,000 and subsequently to four lakhs. No opportunity was given to the former to raise his bid, a fact which is somewhat surprising as there are many other instances where such an opportunity has been given to those who merely made bold offers.

55. Another case, the sale in September 1946 of 844 vehicles in Cheeki Depot, is also worth mentioning. The goods were not advertised but apparently about 150 firms were given permits to inspect surplus vehicles in various depots including Cheeki. Offers were considered, as and when received, and a sale was negotiated with the first person who made an offer of Rs. 20,18,000 which was considered satisfactory, but the party failed to honour the contract. Within the next ten days three offers, two at Rs. 24,20,000 and one at Rs. 24,25,000, were received and considered. Negotiations were conducted with all three and one raised his offer to Rs. 24,51,000, which was accepted. The main feature of the case is a subsequent complaint from the party who offered Rs. 24,20,000 that he was not given a fair and equal opportunity to raise his offer. Judging from the records which throw some light on ~~the status of~~ the complaint also, we do not think that in this case the complaint was justified,

but the fact that negotiations were conducted separately with each party always leaves a loophole for doubts.

56. The sale in January 1947 of jeeps at Nirsa Depot is another instance which has left us not entirely satisfied. All the jeeps in this depot had been crossmandated to the Regional Commissioner, Calcutta, several months ago, in other words he had been entrusted with their disposal. At the beginning sales were made singly or in small numbers at a fixed price of Rs. 3,000. The progress of sale was, however, slow. The Regional Commissioner, therefore, reported on the 9th January that he had still approximately 175 Class III jeeps left unsold for which he was not able to realise Rs. 3,000 each and suggested to headquarters to offer them to a Delhi firm and communicate their best offer to him. After negotiation with this firm it was, however, decided at headquarters to sell the entire unsold balance of 175 jeeps to this Delhi firm at Rs. 2,400 each and order were issued to the Regional Commissioner, who held the crossmandate, to issue the sale document. By the time these orders reached the Regional Commissioner in Calcutta he had received an offer for the same vehicles from another Delhi firm at Rs. 2,600 each. Under these circumstances, he referred the matter to the Director-General who happened to be on tour in Calcutta at the time and it was decided that the sale at Rs. 2,400 should go through if the firm had already been informed of acceptance in Delhi. The Regional Commissioner thereupon concluded the sale after ascertaining by telephone that a commitment had been made. We consider that it was clearly an error to have concluded the sale and asked the Regional Commissioner to proceed with it without any enquiry from him as to the latest position. We must also mention in this connection the strange attitude of the Director when asked to produce before the Committee the file regarding the transaction. His note was as follows: "The sale was conducted by the Regional Commissioner, Calcutta and not through this headquarters, the jeeps being crossmandated to him." This statement was made in spite of the fact that he had full knowledge of the decision made at headquarters which in fact he himself communicated to Calcutta.

57. We think that these instances are sufficient to bring out the essential point that negotiations conducted in this manner even when done with good faith and ability will always leave the door open to doubt and suspicion. It is unnecessary to indulge in further variations on the same theme. The conclusion is clear that publicity is essential and that unless a definite final date is prescribed for the receipt of offers and unless the negotiations are conducted in a manner which will not give room for any one to fear or suspect, that equal opportunities are not given for all, negotiation as a method of sale will be liable to grave abuse and will give the impression of abuse even when it is honestly applied. The legal maxim that justice must not only be done but be manifestly seem to be done has a more general application. When a Government Department does business it is not enough that it should adopt methods which may be good in theory; the methods must be such as to inspire confidence to be accepted as good by the public at large.

58. Our criticism of the method of negotiations does not imply that we believe it to have been universally abused. On the contrary many negotiations have been conducted with care, skill and ability. In several such cases all the parties to the negotiation were collected in one place and asked to make their maximum offers in closed covers after announcement that no offer below a certain figure would be accepted. What we do wish to emphasise is that when not preceded by publicity or conducted in the manner described above, the good and the bad present very much the same appearance on the records. We have heard it suggested by many sources that all offers are not recorded, that inconvenient customers are put off on some excuse or other, that publicity

is deliberately withheld, that valuable information is given to favoured parties. We cannot say that these suggestions have been supported by definite evidence in individual cases, and it is easy to see why they are incapable of such proof. On the other hand they cannot be disproved either.

59. *Bulk Sale of American Surplus Vehicles.*—The most outstanding case of negotiation, as well as one which brings out other points for discussion, is the sale to Messrs. Allen Berry & Co., Ltd., of 62 Hezara Road, Calcutta and Dalmia-Jain Airways, Scindia House, New Delhi (hereafter called Messrs. Allen Berrys) of practically the entire quantity of American surplus vehicles in Bengal and Assam. A series of negotiations which can be regarded as in essence one continuous transaction resulted in the conclusion of the following contracts :—

	Rs.
(a) All vehicles and trailers in the Moran (Assam Depot) as on 10-7-46	1,80,00,000
(b) 200 jeeps (Rs. 2,500 each), 600 Dodge trucks (Rs. 7,500), 200 tractors (Rs. 6,000)	62,00,000
(c) All vehicles in specified depots in Calcutta	2,50,00,000
(d) M. T. Vehicle reconditioning plant	15,00,000
(e) M. T. spare parts	50,00,000
(f) 391 Dodge trucks	29,32,500
Total	5,86,32,500

60. We have mentioned before that all American surplus property and goods were taken over by the Military authorities on behalf of the Government of India in March 1946 with only a very nominal verification of stocks. The approximate number of vehicles involved was as follows :

	Trailers	Trucks, etc.
Moran (Assam)	3489	13905
Jodhpur		
Sodepur		
B. & C. Pools	5816	9218
Caltex		
Tezgaon	392	987
Kalaikunda	456	854
Ondal		500

The word 'approximate' is important as a full verification had not been made by the time of sale which itself was on the basis of the purchaser taking what was found. The surplus vehicles were scattered over a number of depots in Bengal, while in Assam the bulk was supposed to be in one depot at Moran. The actual conditions of custodianship were such that the danger of deterioration and loss by theft was very great. The Disposal organisation found itself with a quantity very much greater than anything they had had to handle before, and anxiety to effect quick disposal was the consideration uppermost in their mind. The Ford Motor Company of India Ltd., and General Motors India Ltd. were asked whether they would be interested in an outright purchase of vehicles of their own make or an outright purchase of vehicles of other makes or an agency for custody, repair and sale of vehicles on behalf of Government. The former were not only not interested in any of the three proposals but expressed disapproval of disposal in India and suggested sale to other countries devastated by war and in greater need of vehicles. The latter were not interested in outright purchase but appeared inclined to act as agents for disposal provided their entire costs were reimbursed and a remuneration of 10% on sale values allowed. This proposition was not considered as worth pursuing any further. A piece-meal attack on the problem was started by advertising auctions of some vehicles in Calcutta and making arrangements for priority indentors to inspect vehicles and pick out their requirements from the Calcutta depots. While these steps were under way, we understand that early in July Messrs. Allen Berrys took the initiative and made an offer to purchase all the vehicles in Moran. This proposal was welcomed by the Disposal authorities and

negotiations were commenced immediately and brought to a rapid conclusion. There is very little in the way of written record of the course of negotiations but an agreement on the broad basis of the first contract was recorded in a joint note. The results of the negotiations were embodied in formal documents of sale issued a couple of days later. The price negotiated for the vehicles in Moran was Rs. 1,80,00,000. The Director General and the Joint Financial Adviser considered that this price which on a rough calculation came to an average of Rs. 1,350 per vehicle excluding trailers was definitely higher than what the Government might be expected to derive by sales spread over a long period. They stated that the price compared favourably with the only external standard then available, namely, the offer of another party to buy vehicles at Rs. 1,000 each.

61. This transaction was followed a few weeks later by a similar bulk sale to Messrs. Allen Berrys of all the vehicles in named depots in the Calcutta area. It is admitted that Messrs. Allen Berrys' reason for making the second purchase was to complete the monopoly of all American vehicles in Eastern India—a monopoly which according to them they thought they had acquired by purchasing all the vehicles in Assam. Messrs. Allen Berrys' representative has made the latter contention to us as he has repeatedly to the Department. On an examination of the facts we think it most improbable that Messrs. Allen Berrys could have had any illusion that there were no American surplus vehicles except in Assam. In any case it is clear that on the purchaser's side a monopoly was the intention. But Messrs. Allen Berrys were no longer the only buyer in the field on a bulk scale. Two other parties made offers and entered into negotiations with the Director General, and a measure of competition, which was lacking in the Moran transaction, was thus introduced. The price finally negotiated with Messrs. Allen Berrys was distinctly higher than the final offer made by either of the others. These facts we have gathered orally from the officers concerned, for they are not on record anywhere. It has been claimed that the entry of competitors, coupled with the anxiety of Messrs. Allen Berrys to round off their Moran transaction with the purchase of the Calcutta vehicles, enabled the disposals authorities to negotiate a very satisfactory price. This claim is supported by Messrs. Allen Berrys' counter contention that they felt compelled to enter into the second transaction.

62. The sale of the vehicles-reconditioning plant and of two-third of the total surpluses of spare parts were in the nature of subsidiary transactions. The sale of definite numbers of jeeps, auto cars (or tractors) and Dodge trucks in Calcutta was negotiated at the same time as the sale of the Moran vehicles.

63. Before we examine the question whether the sale of such large quantities to one firm was not against the public interest, it is desirable to consider whether, having regard to all the circumstances, the prices obtained can be regarded as reasonable. A clear judgment on this point is almost impossible to give. It involves for one thing an assessment of the price obtained for each class or type of vehicle. In a transaction where the numbers involved are themselves indeterminate and condition varies from good to very poor any such assessment can at the best be only a very rough estimate. We have attempted in consultation with the Joint Financial Adviser to assess the average price obtained for the trucks. In the case of Moran the book figure of the total number of vehicles sold was 17,394. Of these, trailers and other types without engines seem to have numbered about 4,000. On the basis of prices obtained by auction of trailers in Calcutta an average of about Rs. 120 for Moran would not be too low a figure. This would amount to a total of Rs. 4,80,000 for trailers. Deducting this from the total figure of Rs. 1,80,00,000, the price of the balance of 13,394 would be Rs. 1,75,20,000, yielding an average of Rs. 1,350 per vehicle. In the case of Calcutta, if the sale for Rs. 2,50,00,000

and the sale of jeeps, Dodges and auto cars are taken together and calculations are made on the same basis, the average price of vehicles other than trailers etc., would approximately be Rs. 2,700. If, however, the sale of the jeeps, Dodges and auto cars is regarded as a separate transaction the average would be lower *i.e.* Rs. 2,200. The average for Moran and Calcutta taken together would be in the neighbourhood of Rs. 2,000. These averages are definitely lower than the prices obtained elsewhere by the sale of Indian surplus vehicles, where many lots have been sold at an average price of Rs. 3,000 per vehicle. A direct comparison with these figures, however, is not quite legitimate. Variations in condition and type have to be taken into account; and it must be remembered that the majority of American vehicles are left-hand drive and a good proportion multiple drive. Many of them also are of tonnages and width beyond what is allowed on the roads under existing transport regulations. It is difficult to express these disadvantages in terms of money; and even if this could be done the average so modified would still not be the right basis for comparison. What is relevant is a comparison of the total price actually obtained with the possible net return to Government, if sales had been made piece-meal over a longer period. In that case there is no doubt that the earlier sales, especially of the better class of vehicles, would have fetched a distinctly higher price. But as disposals proceed prices must be expected to decline, and on the data available to Government at the time of the Allen Berry sale there was good reason to expect that after a certain stage the decline might be sharp. At that time the view was generally held that the volume of American surpluses alone was beyond the absorptive capacity of the country in the near future; and further large declarations of Indian surpluses were expected. Under these conditions we do not feel that the disposal authorities can be blamed for holding the view that a decline of prices would set in fairly soon and develop momentum. It is true that an appreciable decline has not yet taken place, but then the flow of Indian surpluses has been much less than was expected. If sales had been made piece-meal, we believe that it would have taken certainly an year and probably eighteen months to dispose of the Assam and Calcutta vehicles. If allowance is made for deterioration and loss over such a period and the administrative and custodial charges involved, we think that the net return to Government would in all probability have been less than what has been obtained by a bulk sale. In this connection it is of interest to note that some time later Messrs. Allen Berrys asked to be released from their contracts and even offered to forfeit a considerable sum of money. We do not regard this as conclusive proof that the best price was obtained for Government; the possibility that the offer to cancel the contract was inspired by other motives cannot be overlooked. Nevertheless, taken in conjunction with other circumstances, it has its value as a pointer.

64. But while we think that the prices obtained were on the whole reasonable, we are not so sure whether the public interest was equally well served by the sale of such an enormous quantity of vehicles to one firm. It is this aspect of the transaction which has also attracted much public criticism, a very common view being that this sale has put one firm in the position of a monopolist. In the strict sense it is true that Messrs. Allen Berrys have become the monopolist sellers of American surplus vehicles. It is also true that their object throughout was to acquire a monopoly, but whether the firm was put in a position to exercise the monopoly in a manner injurious to the public is a different matter. The power of a monopolist depends on his control of the entire supply; but American surplus vehicles do not constitute the entire supply of vehicles. There has been and there will continue to be for another year a large and steady flow of other surplus vehicles; and this was regarded as a sufficient safeguard

for the public; but the fact still remains that the buyer thought—and he must have had good reasons for thinking so—that in spite of the possible competition of other surpluses there was still room for the profitable exercise of at least a partial monopoly. The main question is whether the extra advantages to the public would have been worth the expense and the administrative inconveniences which disposal at a slower rate would have involved. The answer to this must largely be a matter of opinion. Our view is that the vehicles in Assam situated in a remote area where local sales were difficult and stored in very unsatisfactory conditions, called for immediate disposal irrespective of other considerations; but the position was different in Calcutta. There was no equal need there for immediate bulk disposal. The vehicles were in depots accessible to a large buying public. Sale by auction, advertisement, and even by negotiations to a number of buyers was not impracticable, although it would have been a long and expensive process. In our opinion this might have been the better course to adopt even at the risk of some loss and administrative troubles. (It is however easy to be wise after the event.)

65. *Agency—Tata Aircraft.*—Before we leave the subject of methods of disposal we must refer to the employment of agencies. The only agency hitherto employed for this purpose is Messrs. Tata Aircraft Ltd., who have been entrusted with the custody and disposal of American Air Forces surpluses situated at the main depot of Titaghar and five small depots at Ranaghat, Panagarh, Agra, Karachi and Chabua. The main terms of the Agreement with this firm are re-imbursement of the actual cost incurred by them for the work done; a custody fee of one half per cent. on the total net realisations, and a lump sum agency fee of Rupees ten lakhs on all sales and disposals where the aggregate net realisations do not exceed five crores, plus an additional selling agency fee of five per cent. of net realisations in excess of five crores. Provision has also been made for a broad control of the expenses incurred by the agent, for the fulfilment of the requirements of the priority indentors, and for the settlement of general lines of sales policy in consultation with Government. The circumstances in which this arrangement had to be made have been mentioned in para. 15 above, the main reason being the inability of Government at that time to make alternative arrangements for custody. The practical sales methods adopted by the agency have been more or less similar to those adopted by the disposals organisation. Their experience of open tender has been no different from that of Government. They have the advantage of combining the functions of stock-holding and sale, and the disadvantage of having to deal with aero stores with a limited market. More easily marketable goods like textile, parachutes, vehicles, canteen stores and radio equipment form a relatively small proportion of the total quantity of stores entrusted to them. It is difficult to compare the performance of the agent with that of the Disposals Organisation of Government, but we have no special reason to think that the results achieved by the agency are significantly better or worse.

66. As a matter of general policy we do not recommend the use of agencies, but prefer that outright sales should be made direct by Government. The selection of an agent who will command public confidence is a difficult and delicate affair. Agency terms must more or less follow the Tata pattern and the Government will have to exercise control over expenditure and sales policy. The ultimate responsibility for disposal will still remain with the Disposals organisation. We see no advantage either to Government or to the public by extending the use of the agency system; in fact we would consider it a very desirable step if an outright sale of the stores now in their custody could be negotiated with Tata's.



## VI.—PROGRESS OF DISPOSALS

67. We have discussed the methods of disposal followed. We shall now attempt a broad review of the actual progress of disposals till the end of 1946.

68. The total volume of declarations of surpluses (excluding American surpluses) made upto the end of 1946 amounted to 152·1 crores in terms of book value, sales to 70·5 crores leaving a balance of 81·6 crores for disposal. Of this balance 9·37 crores represent Iron & Steel, and 4·37 crores cotton textiles. We regard this performance as on the whole satisfactory, considering the conditions under which disposals had to be effected. 110 crores out of the 152 crores were reported for disposal in the last nine months of 1946. A large number of declarations were incomplete and much time and energy was wasted as a result of cancelled declarations. In the first half of 1946, the organisation was not adequate to meet the load. Having regard to these factors, the results achieved, in terms of quantity, are considerable. We think that they are in no small measure due to the immense energy and organising capacity of the Director General of Disposals, Mr. A. MacFarquhar.

69. A brief indication of the performance and outstandings of each of the Directorates is given below. All figures are in terms of book value, unless specified to the contrary.

70. *Textiles and Leather*.—Out of 40 crores of surpluses declared till the end of 1946, 25 have been sold; balance consist of 14·83 crores. The outstanding of the Textile Commissioner namely 4·37 crores is included in the above balance. Figures of some interesting items are given below:

Material	Quantity reported	Quantity sold
Cloth suitable for civil market	51 million yds.	46 million yds.
Other cloth e.g. bandage cloth, gauze	61 million yds.	57 million yds.
Woollen piece goods	600,000 yds.	500,000 yds.
Silk Piece goods	500,000 yds.	500,000 yds.
Jute & Jute products	28 million yds.	25 million yds.
Woollen yarn	2·5 million lbs.	2·5 million lbs.
Cotton parachutes	1·5 million Nos.	1·5 million Nos.
Cotton capes	2·6 million Nos.	2·6 million Nos.
Twill shirts	1,250,000 Nos.	1,250,000 Nos.
Scrim Garnishing	15,000 tons	14,000 tons
Duck/Canvas	8 million yds.	3 million yds.
Cotton garments	14 million Nos.	6 million Nos.

Sales of cotton piece goods were effected more or less, but not quite in accordance with Control arrangements. Woollen yarn, woollen piece goods and silk piece goods have been sold at fixed prices not only to recognised dealers but also to a wider circle of traders. Cotton parachutes have been sold on

a schedule of sliding scale, prices ranging from Rs. 16·4 for quantity of 100,000 and above to Rs. 17·4 for lots of 5,000. The greater part of jute was sold for export to the United States through the normal exporting channels. In all other cases the method of sale has generally been negotiation after failure of advertised tender. Despite the special inducement given to buyers of Duck and Canvas in the shape of allocation of good mill cloth, progress has been slow.

71. Below are given figures showing sale value and book value in a few important categories :—

Description of Stores	Total Book value (in crores)	Sales		Balance unsold book value (in crores)
		Book value (in crores)	Sales value (in crores)	
Clothing serviceable	Rs. 4·72	Rs. 3·70	Rs. 2·32	Rs. 1·02
Textile material piece-goods	11·21	9·21	8·63	2·00
Textile material Jute	7·39	3·65	2·38	3·74
Heavy Textile articles	2·43	·38	·19	2·05
Other Textile articles	3·32	·59	·30	2·73
Footwear	1·12	·32	·22	·80
Tentage and connected stores	1·09	·92	·53	·17
Parachutes and fittings	6·75	5·51	2·12	1·24

72. *Miscellaneous Stores.*—The book value of surpluses reported to the end of 1946 was 15·14 crores. Of this, stores of a book value of 4·76 crores have been sold for 3·07 crores leaving a balance of about 10·38 crores for disposal. The main elements are as follows :—

Description of Stores	Total Book value (in crores)	Sales		Balance unsold book value (in crores)
		Book value (in crores)	Sales value (in crores)	
	Rs.	Rs.	Rs.	Rs.
Drugs and Chemicals	3·18	·78	·31	2·40
Dressings and Bandages	1·82	·85	·71	·97
Surgical and Dental Instruments	2·96	·55	·23	2·41
Acids and Chemicals	1·40	·41	·30	·99
Lubricating oil	3·13	1·57	1·04	1·56
Other Misc. stores	1·47	·17	·09	1·30

It will be observed that the great bulk of the outstanding surpluses consist of medical and veterinary stores. In many items the quantity of surpluses available is considerably in excess of the requirements of the country.

This is particularly so in the case of surgical instruments. Subject to conditions that indigenous production is not adversely affected, medical stores must in our opinion be sold quickly for what they will fetch.

73. *Vehicles*.—The book value of surpluses reported amounted to about Rs. 17 crores. Out of these vehicles of book value of 4.6 crores have been sold for 3.14 crores. The high figure of outstandings *viz.* 12.5 crores is partly explained as the unsold balance of vehicles include a number of highly priced and specialised heavy vehicles. We are not, however, satisfied even with the figures of the book value and sale value of the vehicles actually disposed of. We believe there has been a considerable under-estimate and some figures have escaped statistics. A truer picture can, however, be given in terms of vehicles. Declaration to the end of 1946 amounted to 29,500 out of which 21,700 have been sold, leaving roughly a balance of 7,800. 7,400 were sold by Regions mainly by the method of auction. Sales made by headquarters were practically all by method of negotiation.

74. *Transportation Stores*.—The book value of transportation stores amounted to about 35 crores of which 22.5 have been sold for about 9 crores. The major elements are as follows:

Description of Stores	Total Book value (in crores)	Sales		Balance unsold Book value (in crores)
		Book value (in crores)	Sales value (in crores)	
	Rs.	Rs.	Rs.	Rs.
Locomotives . . . . .	10.35	10.29	4.55	.06
Rails and fittings . . . . .	1.19	.47	.47	.72
Other Railway and Transportation equipment.	12.23	7.93	2.41	4.30
Airframes, engines and spares . . . . .	.50	.10	.03	.40
Boats . . . . .	8.70	2.39	.96	6.32

The bulk of the transportation stores has naturally been sold to priority indentors, mainly Railways. There are heavy outstandings of Marine Craft which include Fairmiles worth a crore, Ramped Cargo lighters worth another crore and tugs and barges worth nearly two crores. These have a limited market and sales are bound to be difficult.

75. *Miscellaneous Metals and Hardware*.—Out of declarations worth 24 crores, stores of the book value of 8.19 crores were sold for 5.33 crores. Further details are as follows:

Description of Stores	Total Book value (in crores)	Sales		Balance unsold Book value (in crores)
		Book value (in crores)	Sales value (in crores)	
	Rs.	Rs.	Rs.	Rs.
Ferrous including un-fabricated steel.	9.90	2.58	2.20	7.32
Non-Ferrous . . . . .	2.99	.92	.83	2.07
Timber . . . . .	3.50	1.41	1.27	2.09
Building materials . . . . .	1.57	1.02	.36	.55
Sanitary fittings . . . . .	1.86	.16	.12	1.70
Antigas stores . . . . .	1.27	.57	.16	.70
Containers . . . . .	2.17	1.43	3.54	.74

The bulk of the balances consists of iron and steel regarding the disposal of which we have already commented.

76. *Capital Goods, Plant and Machinery.*—Declarations amounted to a book value of Rs. 10·5 crores and disposals 3·5 crores. Sale value being about 2 crores. The main outstandings are :—

Description of Stores	Total Book value (in crores)	Sales		Balance unsold Book value (in crores)
		Book value (in crores)	Sales value (in crores)	
	Rs.	Rs.	Rs.	Rs.
Hand tools, machine tools, Machinery and Plant.	4·32	1·59	·78	2·73
Bridges and other heavy constructional material.	·52	·27	·09	·25
Structural work . . . .	·74	·10	·04	·64
Lands and Buildings . . .	·75	·36	·28	·39
Factories and other Installations, hospitals etc. . . . .	1·42	·53	·38	·89

Twenty eight installations (which include factories, hospitals, etc.) came up for disposal. Out of these 18 have remained unsold, seven being meat dehydration factories valued at Rs. 52 lakhs but unlikely to fetch anything like this sum. Disposal of installations is decided by the Disposals Board in each case. The general practice has been to offer them in the first place to the Central Government Departments and to the Provinces in which the installation lies, the formula being land at cost of acquisition, building and plant at cost less depreciation at income-tax rates. Where the Province does not require the installation its views regarding the future use of the installation are taken before sale to the public.

77. *Electrical, Communication and Scientific Stores.*—Of the total declared surpluses amounting to 9·03 crores in book value, 1·52 crores have been sold for 1·18 crores.

The balances are heavy as would be seen from the following :—

Description of Stores	Total Book value (in crores)	Sales		Balance unsold Book value (in crores)
		Book value (in crores)	Sales value (in crores)	
	Rs.	Rs.	Rs.	Rs.
Electric Machinery and Plant	·49	·13	·12	·36
Electric wire cables fittings .	3·57	·55	·61	3·02
Bolts, nuts, rivets and washers	3·00	·68	·37	2·32
Communication Stores . . .	1·37	·07	·0566	1·30

Unsold balance under the head Electric Wire and Cables includes a very large quantity of Marine cables of a book value of Rs. 60 lakhs and electric lamps worth about 1·3 crores, while of bolts, nuts, etc. mentioned above 1·6 come under the Iron and Steel Control.

78. *American Surpluses.*—Here declarations are complete. Gross sales to the end of 1946 amounted to 22.05 crores distributed as follows:

D. G. D.	13.78 crores
Tata Aircraft	5.53 „
Food Department	2.74 „

Of the sales made by D.G.D. Priority indentors took 3.2 crores and of the bulk sales of vehicles Messrs. Allen Berrys accounted for 5.86 crores. The contents of eighteen depots have been completely sold.

79. In interpreting the figures we have quoted above it must be constantly borne in mind that book values bear no necessary relation to actual market values. Book values are those given by the declarer of the surplus and represent the cost of acquisition to him with certain additions, in some cases, for transport, storages and other overhead charges. They cannot therefore serve as a criterion by which to judge the reasonableness or otherwise of the price at which surpluses are sold. In the case of goods in common demand some approximation to book values can be expected; in fact there have been some cases where prices realised have exceeded book values (*e.g.* Mazri shirts). But in the case of goods which in their existing form and condition have no direct civil use—a wide range of surpluses are of this character—book values are worthless for the purpose of judging market values. We have, however, formed the opinion after a general survey of prices actually realised that they have on the whole reached as reasonable a level as could be expected in the circumstances. In saying this, we do not forget our criticisms on negotiation as a method of effecting sales. Negotiation as we have already observed has often been conducted with skill and judgment; but there is always an element of uncertainty about it which has left us unconvinced that in all cases the results obtained have been necessarily the best.

## VII—RECOMMENDATIONS ON METHODS OF DISPOSALS

80. The preceding discussions on the way surplus goods have been disposed of hitherto would have suggested the general lines of our recommendations. Before stating these in a more precise form, it is necessary to restate the main objectives of policy in the light of experience and knowledge gained so far. The main principles governing disposals policy enunciated in 1944 were largely dominated by a fear that surplus goods would be of a character and volume likely to interfere with indigenous production. Emphasis was therefore laid more on orderliness than on speed of disposal; and the maximum use of regular trade channels was regarded as most likely to ensure the correct combination of speed and orderliness. Experience has largely belied the fear that disposals would adversely affect the internal economy. It has also shown that there are definite limits to the use of trade channels, which can be employed to the benefit of the public only when they are sufficiently widespread, organised and enlightened to restrict their own margins of profit to a reasonable level and ensure a fair price to the consumer. Where these conditions do not prevail—and in our opinion they do not prevail over a large range of stores—the consumers' interests can only be protected by the spreading of surplus goods over as large numbers of middlemen as possible, so that competition among them may in part at least compensate for the absence of more direct safeguards.

81. The objectives must be defined and the methods formulated in the light of these conditions. The prime objective of Disposals policy must always be to ensure the most beneficial use of surplus goods. All others flow from

it. This requires, in our opinion, that surplus goods should be disposed of as speedily as possible before their utility is diminished or destroyed by the influx of time. Speed will serve equally the economic interest of the country, administrative convenience and the financial advantage of Government. The loss in utility and value caused by deterioration is difficult to measure but must be very considerable. In the majority of cases therefore there will be no conflict between speed and price if a long view is taken. Speed should therefore be regarded as the primary and governing objective; it should be sacrificed in favour of other considerations only when the advantages of the latter are clear to demonstration. The conditions under which speed should be sacrificed are, in our opinion, the following :—

- (a) When the surplus goods are so scarce that they have to be rationed over a longer period than would be justified from the mere disposal point of view. Steel is a good example.
- (b) When surpluses compete with indigenous production and quick disposals would involve at least temporary embarrassment to the industry. Such cases are rare. We do not think however that speed should be sacrificed in the case of articles which compete with imports.
- (c) The speed to be aimed at should be the maximum attainable by the adoption of methods which are in themselves sound, that is to say, methods which ensure full publicity and equal opportunity for all who desire to purchase surplus goods.

82. We therefore consider that the interest of the Government and of the public will be best served by the adoption of the following suggestions :—

(i) The conditions of sale should be modified so as to guarantee at least the quantity of goods offered for sale, if necessary with prescribed limits of variation. We recognise that as a rule surplus goods must be sold where they are and in their existing condition and departure from this practice must be restricted to cases where the advantages are patent. Disposal on the 'as is where is' basis has necessitated conditions of contract which render the business risky and speculative and keep out the more conservative among regular traders and industrial consumers. While we recognise that the onus of judging quality and condition of goods must be left with the buyer, we think that the conditions of contract could advantageously be modified to guarantee to the buyer at least a definite quantity of goods subject, if necessary, to proscribed limits of variation.

(ii) Disposals should be effected by out-right sale. We do not favour the employment of agencies for reasons already stated. We recognise that the employment of Messrs. Tata Aircraft Ltd., as agents for the disposal of American surplus airforce stores was necessitated by very special considerations.

(iii) All controlled commodities should be disposed of strictly in accordance with the control arrangements.

(iv) Regular and established trade channels should continue to be used where it is possible by mutual arrangements effectively to regulate the price charged to the consumer.

(v) In the case of consumer goods it is not possible to sell direct to the consumer without establishing a vast retail sales organisation. Middlemen are, therefore, necessary, but in the case of raw materials and other goods which are consumed by industry, provision must be made where possible to sell direct to the industrial user. We consider that the best method would be to fix prices and invite offers for quantities. Current market prices, with due allowance for condition and cost of transport, should be the basis of the fixed price.

(vi) We consider that the open tender method in its normal form or the slight variant of the catalogue system should be abandoned. The principal method of disposal should be by public offer with reserve prices. We consider that the Disposals Organisation should by this time have acquired sufficient experience to determine reasonable reserve prices. There may be a disposition to consider that this method is likely to succeed only in the case of attractive articles. We are, however, satisfied that the method is capable of much wider application. We cannot lay down in advance the forms which publicity should take. All that we can say is that the maximum publicity should be attempted. The present "weekly selections" can, for instance, be expanded to bi-weekly selections or tri-weekly selections. The Disposals organisation intends to issue fortnightly bulletins not only as a medium for disseminating general information but also for advertising stores with reserve prices, and a guarantee of sale to the highest bidder above the reserve price. We consider that this will be a suitable medium. Wide publicity should be given to the bulletins themselves by means of notices or advertisements in the press and by distribution through Chambers of Commerce and Trade Associations. The offers received must be opened at a stated time and facilities should be given for tenderers to be present. As the volume of stores dealt with in this manner increases, it may be necessary to issue the regional bulletins also. As we have mentioned before the success of the method will mainly depend on the judgment shown in the determination of reserve prices. Here we must again emphasise the necessity to fix them at an attractively low level so as to stimulate competition. Particular care should be taken not to jeopardise the success of the method by resorting immediately to negotiation at lower prices in cases where offers are not received. Attempts should be made to discover the reasons for failure in each case and the stores should be re-advertised after a suitable interval at a revised reserve price. If even the second attempt fails the goods should, as a rule, be disposed of by auction. It is possible that frequent re-advertisement with lower reserve prices may lead to buyers holding off in the first instance. But we think that this risk is worth while, though care should be taken from the beginning to reduce it by offering reasonably low reserve prices in the first instance.

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(vii) While we think that with the experience gained so far it should be possible for the Disposals organisation to work out suitable reserve prices over a very wide range, there might still be cases where there are not sufficient data for doing so and at the same time, for any special reason, the method of auction is not suitable. We would not rule out the use of the ordinary open tender in such cases, provided it is made clear that the highest tender will invariably be accepted however low it may be. The possible financial loss to Government resulting therefrom must be accepted as a price well worth paying on a long view. We think publication of the results will itself create competitive conditions, which in time—and we believe in a short time—will largely eliminate the risk of sales at low prices.

(viii) The method of auction should be employed to a much larger extent than at present. In the U.K. we understand that it is the principal method of disposal. Auction secures speed, and if properly organised we think that it will secure reasonable prices to Government. The following classes of goods should always be sold by auction :—

(a) Salvage and Scrap,

(b) All surpluses of a value which makes it not worthwhile to advertise at reserve prices.

- (c) Goods which remain unsold after two unsuccessful attempts to sell at reserve prices.

Once goods are offered for sale by auction they should not be withdrawn. Auction should have finality and the practice of registering bids for subsequent confirmation should cease. Under conditions prevailing in this country we do not recommend that auctioneers should be given discretion to decide when the hammer should fall. This should continue to rest with a Disposal officer attending the auction. But in order to secure finality and quick decision, he should be given more discretion than at present to accept bids. In the case of important auctions there should be supervision by senior officers. The need to give adequate publicity to auctions cannot be over-emphasised.

(ix) We consider that it should be possible to dispose of the bulk of surpluses by advertisement with reserve prices or by auction. Negotiation should, therefore, take its proper place as a special method to be adopted only under special conditions. It is impossible to lay down with precision the circumstances in which negotiations should be resorted to ; but broadly speaking it will still be necessary in the following cases :—

- (a) Where the stores are so specialised that it is necessary to deal with a single buyer or the circle of buyers is very restricted.
- (b) Where for special reasons it is desirable to sell the entire contents of a depot.

Even in such cases we think that the intention of Government to sell by negotiation should be made known to the public by separate advertisement or through the bulletin. The technique of negotiation cannot be prescribed and must be left to the skill of the officers concerned, but as far as possible a time limit must be announced and all those who express a desire to negotiate should be given an opportunity to bid. There have been a few instances where all intending purchasers have been collected in a room and asked to make their offers in writing on the understanding that the best offer would be accepted on the spot provided it was above a certain reserve named or unnamed. We commend this method and would urge its adoption as a rule ; but we think that the reserve price should invariably be announced. The important thing is to make sure that no genuine purchaser is deprived of the opportunity to take part in the negotiation. Publicity, time limit and the open conduct of negotiations, would go a long way to preserve the benefits of the method while avoiding its dangers. If the suggestions we have made are adopted, negotiations would play a comparatively minor role and it should be possible to restrict the power of negotiation to officers not lower in rank than Deputy Director-General, acting in collaboration with their Financial Advisers. It is also necessary to lay down that a full record should be maintained of the reasons which have made resort to negotiations necessary, of the course of negotiations and of the reasons for accepting a particular offer. We have considered very carefully whether as a further safeguard negotiated sales should be subject to ratification by the Disposals Board or a sub-committee of that Board, but we have come to the conclusion that on the whole it would be undesirable to fetter the discretion of the actual negotiator. However efficiently organised, ratification will take some time and the delay in some cases might lead to the frustration of a successful sale. It is better to fix responsibility squarely. We recommend, however, that provision should be made for a periodical independent scrutiny of all negotiated sales ; and the knowledge that the sales will be so scrutinised will in our opinion be a sufficient safeguard. We recommend that this scrutiny should be carried out by a Committee consisting of two representatives elected by the Legislative Assembly and one elected by the Council of State with the Hon'ble Member for Industries & Supplies as Chairman. If the negotiations



are restricted as we have suggested, the Committee would probably not have to meet more than once a quarter. We understand that a Committee of this kind with the powers which we have suggested would be welcomed by the Director General.

83. We attach very great importance to publicity. The clouds of uncertainty and suspicion which have sometimes enveloped disposal operations can be scattered only by full and effective publicity. This should take three forms :

The public should be regularly informed of the policy and methods of disposal, of the goods which are to be disposed of, and of the manner of actual disposal. The fortnightly bulletin might be used for the purpose. It should have a section showing details—purchaser, article, quantity and price—of all sales exceeding a certain value, say one lakh. Several Chambers of Commerce have pressed for the dissemination of such information and we think post-publicity of this character will not only go a long way to eliminate distrust and suspicion but will serve as a valuable indirect medium of advertisement. It has been pointed out to us that in certain cases where goods of varying conditions are sold to one buyer, the average price might give a misleading impression to the public and cause embarrassment to the buyer. This may well be so, and in such cases it might be desirable to draw attention to this factor in the bulletin itself.

84. Besides the general recommendations made above we recommend in particular that vehicles should ordinarily be disposed of by the method of auction in small lots. Where this is not suitable, as for instance in the case of specialist or heavy vehicles or vehicles situated in remote depots where sufficient bidders cannot be attracted, advertisement in the bulletin with reserve prices should be resorted to. Secondly, in the disposal of American surpluses situated in Assam speed must be the only consideration. We have in an earlier paragraph urged the necessity for complete physical verification of stocks as early as possible, but disposal need not and should not await such verification, nor need it await the movement of surpluses to depots in Calcutta. There is a certain measure of risk in selling indeterminate quantities on the spot but this risk is less than the risk of deterioration and consequent loss.

85. The successful application of the methods we have recommended demands the existence of complete public confidence in those methods. In order to establish this confidence we recommend that a public statement should be made by Government by means of a press communique announcing their intention to ensure that every one gets an equal opportunity to purchase surplus goods and that for this purpose the normal method of disposal to the public will be by published invitation to tender on the basis of reserve prices to be announced. It should be specifically mentioned that negotiation will not follow and that as a rule goods which cannot be disposed of in this manner will be sold by auction. It should also be announced that negotiation will be restricted to a minimum and that in any case it will not be resorted to without an advertisement of the fact.

86. We have stressed more than once the need for quick disposal. It might appear that the methods we have recommended would themselves tend to slow down the rate of disposal; but we believe that this is only a superficial view. The methods are not new, and in fact, they have been partially initiated by the Director General. We are convinced that if they are rigorously applied with a firm intention that they should succeed, a satisfactory rate of disposal can be achieved.

## VIII—ORGANIZATION

87. *Structure of the Organisation.*—We indicated in para. 5 in brief outline the structure of the Disposals organisation under the Director-General of Disposals. With a view to be ready for the efficient disposal of surpluses after the war, a disposal organisation in embryonic form was created as early as 1943 with the appointment of a Director General of Disposals. This post was held as an additional charge by the then Director-General of Supply who was given a small special staff for the purpose. Early ideas on the organisation of disposals were largely governed by the theory that the buyer of an article is best fitted to sell it. Disposal was regarded as the reverse of procurement and the following sentence occurs in the first memorandum of the 13th September 1944: "As the procurement situation eases the Director-General of Disposals will use in reverse the procurement organisation of the Supply Department as far as possible". This expectation did not materialise and it was clearly recognised in the latter half of 1945 that except for surpluses of controlled commodities, the responsibility for disposal must be squarely fixed on one organisation. A whole-time Director General of Disposals was appointed in the middle of December 1945. The next nine months saw a steady expansion of the staff gazetted and non-gazetted as shown by the following statement:—

## OFFICER STRENGTH

	1-1-46	1-4-46	1-7-46	1-10-46	1-1-47
Headquarters (including Calcutta and Assam Directorates of American Division)—					
Sanctioned . . . . .	48	65	69	89	90
In Position . . . . .	18	45	52	64	75
Regional Offices—					
Sanctioned . . . . .	14	64	66	71	72
In Position . . . . .	13	37	59	66	72

## MINISTERIAL ESTABLISHMENT

	1-1-46	1-4-46	1-7-46	1-10-46	1-1-47
Headquarters (including Calcutta and Assam Directorates of American Division)					
Sanctioned . . . . .	84	342	647	764	872
In Position . . . . .	57	264	571	733	807
Regional Offices—					
Sanctioned . . . . .	...	327	870	1,014	634*
In Position . . . . .	...	313	787	914	550†

88. During the first half of 1946 the time lag between the sanction of posts and the actual appointment of officers was marked. This was partly due to the natural reluctance of Government to depart from the orthodox practice of creating posts only after the necessity for them had been clearly established and partly because of certain special factors which delayed the selection of men for appointment to sanctioned posts. The expansion of Disposals coincided with retrenchment in other parts of the Department and a standardisation of rates of pay which in many individual cases involved reduction from war-time emoluments. Retrenchment involved careful

\*The reduction is due to the transfer of the staff of the Storage and Transport Organisation from Director-General of Disposals to Director-General of Industries and Supplies with effect from 16th December 1946; the number involved being 396.

†This is an estimated figure as Regional Commissioners are competent to fill up non-gazetted posts in their offices without reference to headquarters and the position varies from day to day.

consideration of the relative merits of officers in all branches of the Department and this process took time. Several persons who were selected for appointment declined to accept them ; several others resigned as presumably they could command better terms elsewhere. The temporary upset resulting from retrenchment was even greater in the case of non-gazetted staff because of the vast number of conflicting claims which had to be considered.

89. The headquarters' organisation now consists of four Divisions each under a Deputy Director-General. Details are given below :—

**DEPUTY-DIRECTOR GENERAL (GENERAL) :**

1. *Textiles Directorate :*

One Deputy Director-in-Charge.  
Two Deputy Directors.  
Three Assistant Directors.

2. *Misc. Stores Directorate :*

One Director.  
Two Deputy Directors.  
Four Assistant Directors.

3. *Vehicles Directorate :*

One Director.  
One Deputy Director.  
Two Assistant Directors.

4. *Transportation Stores Directorate :*

One Director.  
One Deputy Director.  
One Assistant Director.

**DEPUTY DIRECTOR-GENERAL (ENGINEERING) :**

1. *Capital Goods, Plant and Machinery Directorate :*

One Director.  
Two Deputy Directors.  
Six Assistant Directors.

2. *Misc. Metals and Hardware :*

One Director.  
Two Deputy Directors.  
Seven Assistant Directors.

3. *New Engineering Directorate :*

One Director (Vacant).  
Two Deputy Directors.  
Five Assistant Directors.

**DEPUTY DIRECTOR-GENERAL (AMERICAN) :**

1. *United States Transfers Directorate, Headquarters :*

One Director.  
Three Deputy Directors.  
Five Assistant Directors.

2. *U. S. T. Directorate, Calcutta :*

One Director.  
Three Deputy Directors.  
Four Assistant Directors.

3. *O. S. D., Assam :*

One O. S. D.  
One Deputy Director.  
One Assistant Director (Vacant).



**DEPUTY DIRECTOR-GENERAL (CO-ORDINATION) :****1. Administration and Co-ordination :**

One Director.  
Three Deputy Directors.  
Four Assistant Directors.

**2. Statistical Directorate :**

One Director.  
Three Deputy Directors.

**3. Publicity Directorate :**

One Director.  
One Deputy Director.  
Two Assistant Directors.

It will be observed that the principle of division in the disposal of non-American surpluses is by commodity ; in the case of American surpluses it is territorial. The Deputy Director-General, Co-ordination, is in charge of the three important common services of administration, statistics and publicity.

90. For the purpose of disposals the country has been divided into four main regions with headquarters at Calcutta, Bombay, Lahore and Cawnpore. Each region was intended to be in charge of a Regional Commissioner ; at present however the Lahore and the Cawnpore regions are in charge of Deputy Regional Commissioners only. A Deputy Regional Commissioner working under the Regional Commissioner, Bombay, is stationed at Madras, while an Assistant Regional Commissioner working under the Deputy Regional Commissioner at Lahore is stationed at Karachi. The regional offices are manned by officers of the same grades as at headquarters but their designations follow a different line, namely, Deputy Regional Commissioner, Assistant Regional Commissioner, etc., as below :

**Calcutta :**

One Regional Commissioner.  
Two Deputy Regional Commissioners.  
Three Assistant Regional Commissioners.  
Four Deputy Assistant Regional Commissioners (A. D. Grade).  
Two Deputy Assistant Regional Commissioners (D.A.D. Grade).  
One Administrative Officer (A.D. Grade).  
One Progress Officer (A. D. Grade).  
Two Show Room Officers.  
Four Field Inspectors.

**Bombay :**

One Regional Commissioner.  
Two Deputy Regional Commissioners.  
Three Assistant Regional Commissioners.  
Three Deputy Assistant Regional Commissioners (A.D. Grade).  
Two Deputy Assistant Regional Commissioners (D.A.D. Grade).  
One Administrative Officer (A.D. Grade).  
Two Show Room Officers.  
Four Field Inspectors.

**Madras :**

- One Deputy Regional Commissioner.
- Two Assistant Regional Commissioners.
- One Deputy Assistant Regional Commissioner (A.D. Grade).
- Two Deputy Assistant Regional Commissioners (D.A.D. Grade).
- Two Field Inspectors.

**Lahore :**

- One Regional Commissioner (Vacant).
- One Deputy Regional Commissioner.
- One Assistant Regional Commissioner.
- One Deputy Assistant Regional Commissioner (A.D. Grade).
- Two Deputy Assistant Regional Commissioners (D.A.D. Grade).
- One Sample Room Officer.
- Two Field Inspectors.

**Karachi :**

- One Deputy Regional Commissioner.
- One Deputy Assistant Regional Commissioner (A.D. Grade).
- One Deputy Assistant Regional Commissioner (D.A.D. Grade).
- One Field Inspector.

**Cawnpore :**

- One Regional Commissioner (Vacant).
- One Deputy Regional Commissioner.
- One Deputy Assistant Regional Commissioner (A.D. Grade).
- Three Deputy Assistant Regional Commissioners (D.A.D. Grade).
- Two Sample Room Officers.
- Three Field Inspectors.

91. Each grade of officer is competent to enter into contracts of sale up to prescribed financial limits as below, except for the disposal of capital assets which requires the sanction of the Disposals Board :

**Headquarters Organisation**

- |                                 |   |   |   |                    |
|---------------------------------|---|---|---|--------------------|
| 1. Director General (Disposals) | . | . | . | Full powers.       |
| 2. Deputy Director General      | . | . | . | Up to Rs. 5 lakhs. |
| 3. Director                     | . | . | . | Up to Rs. 1 lakh.  |
| 4. Deputy Director              | . | . | . | Up to Rs. 50,000.  |
| 5. Assistant Director           | . | . | . | Up to Rs. 25,000.  |
| 6. Deputy Assistant Director    | . | . | . | Nil.               |

**Regional Organisation**

(i) In the case of the Textile Commissioner and Regional Commissioners who have an officer of the Finance Department (Supply) accredited to them—

- |   |   |   |   |   |                     |
|---|---|---|---|---|---------------------|
| Textile Commissioner  | . | . | . | . | Up to Rs. 10 lakhs. |
| Regional Commissioner   | . | . | . | . | Up to Rs. 5 lakhs.  |
| Deputy Regional Commissioner (including Director of Disposals in the Textile Commissioner's Office)           | . | . | . | . | Up to Rs. 1 lakh.   |
| Assistant Regional Commissioner (including Deputy Director of Disposals in the Textile Commissioner's Office) | . | . | . | . | Up to Rs. 25,000.   |

(ii) Where a Regional Commissioner has no officer of the Finance Department (Supply) accredited to him—

Regional Commissioner . . . . .	Up to Rs. 1 lakh.
Deputy Regional Commissioner . . . . .	Up to Rs. 50,000.
Assistant Regional Commissioner . . . . .	Up to Rs. 10,000.

These powers, however, can be exercised only in consultation with officers of the Finance Department who have been accredited for the purpose. Their prior concurrence is necessary for the initial determination of the method of sale, except in the case of surpluses below a book value of Rupees one lakh and salvage below an estimated value of Rs. one lakh—the estimate being based on previous sale. Their concurrence is also necessary for the fixing of floor or reserve prices. If the method adopted is limited tender, private treaty or negotiation, not only their concurrence but their association with all stages of negotiation is required. Without entering into any further details it may be said that a Disposals officer can sell surplus goods without financial concurrence only when, after indication of reserve prices, he accepts the highest bid.

92. All surplus reports from declaring authorities—except those of a book value of Rs. 1,000 or less and a certain range of engineering stores which are reported direct to the Regions—are received in the first instance in office of the Director General. But not all surpluses so reported are dealt with at headquarters. A proportion is cross-mandated to the Regions for disposal. The decision to cross-mandate is taken on the merits of each case; where considered necessary, directions are given regarding the method of sale, prices below which sales should not be effected, etc. The Regional Officers are thus responsible for the disposal of salvage and surplus stores reported direct to them and surplus stores cross-mandated to them. They are competent to dispose of the latter at their discretion subject to compliance with any specific directions given in the cross-mandate and to the general restrictions described in the preceding paragraph. The conclusion of contracts by the method of negotiation is therefore possible only in the Regional Offices to which Financial Advisers are accredited; where this is not so negotiations may be initiated in the Regions but depend for their conclusion on the sanction of higher authority.

93. *Recommendations.*—We are of opinion that the structure of the Disposals organisation is sound and requires little alteration. Apart from any other consideration, it would be undesirable to effect a major change in the organisation at this stage, and we have therefore only a few minor changes to suggest. At headquarters we think the stage has come when one or two Directorates can be abolished. The Vehicles Directorate can be conveniently amalgamated with that of Transportation. The three Directorates of the Engineering Division can be reorganised into two. We also think that it should be possible in the course of the next two months to merge the Textiles and the Miscellaneous Stores Directorates. We have considered whether a Deputy Director General is required for the functions of co-ordination, administration and publicity. If existing methods were allowed to continue, we doubt whether this post would be necessary; but for the speedy introduction and efficient carrying out of the revised methods which we have suggested we are of opinion that an officer of this grade is necessary. As for the Regions we recommend that Madras should be organised into a separate Region independent of Bombay and working directly under headquarters. We do this in view of the large volume of surpluses likely to be reported from depots in that area. We also suggest the abolition of the class of Field Inspectors. They do not seem to be equipped to carry out effective inspection of surpluses in a way which will be useful for the purpose of assessing their value. Our

proposals envisage physical inspection of stores where the information which can be legitimately expected from the declarer is insufficient for fixing reserve prices. But this work must devolve on more senior officers who are capable of performing it competently. The officers concerned in the Directorates or Regions might be employed, to some extent ; for the rest it would be desirable to appoint a few special officers with the necessary qualifications.

94. We consider that increasing use of the Regional Offices should be made for the disposal of surpluses. Steps in this direction are already being taken. It is not possible to lay down precisely what stores should be cross-mandated to Regions for disposal ; but the broad principle is clear. Controlled articles, goods for the disposal of which standing arrangements have been made with established trade channels, scarce articles, particularly those for which demands from priority indentors are likely, and surpluses which though mainly located in one Region are in demand throughout the country, obviously require to be dealt with from the centre. Surplus stores which have to be auctioned or for which the demand is local, clearly call for disposal in the Region concerned. But in the wide range of intermediate cases it is not easy to draw a clear dividing line ; decisions must be taken in each case with reference to the conditions then prevailing. Thus, it might be advisable to cross-mandate surpluses located in the Regions concerned, if it is clear that similar surpluses exist in other Regions to meet their respective local demands. If our recommendation that advertisements with reserve prices should be developed as a normal method of disposal is accepted, care will have to be taken that the same type of goods are not offered at markedly different reserve prices in different Regions. In the initial stages it might therefore be desirable that Regions should make use of a co-ordinated publicity, so that it would be possible to arrange for a central scrutiny of reserve prices. It might be asked whether in that case there is any advantage at all in bringing the Regions into the picture. We think there would be. Normally surpluses situated in a Region are likely to attract more buyers from that area than from distant places. It will be a great convenience to them to make their offers to the Regional Offices rather than to Delhi ; it will enable a larger proportion of tenderers to be present at the time of the opening and consideration of offers ; and it will facilitate transactions consequential to the sale as well as the speedy return of deposits to unsuccessful buyers. And from the point of view of the Disposals Organisation it will enable quicker verification and inspection of surpluses to be carried out, where necessary.

95. Decentralisation will have to be accompanied by the necessary increase of staff in the Regions ; but this can be provided for by a corresponding reduction in the strength of officers at Headquarters. We consider that the Organisation as a whole is now equipped with an adequate number of officers, and all that will be required is a gradual re-distribution of them.

96. We think that the disposal of stores by the Regions should be effected only by the methods of advertisement with reserve prices (using the central medium of publicity to begin with) ; open tender, where it has been decided in advance with financial concurrence to accept the highest bid ; and auction. We consider that Regional Commissioners should not be given powers to conclude contracts by negotiation ; but the Regional officers could be used by Headquarters for preliminaries.

97. *Staff.*—The gazetted staff of the Disposals organisation consists largely of temporary officers. Out of the 151 officers in position as on the 1st January 1947, less than a third were permanent Government servants. A large majority of the temporary officers, however, consists of those who had acquired during the war some experience of Government service in various branches of the Supply Department. (In the non-gazetted staff the

pre dominance of temporary employees is even greater). There are a number of officers with technical knowledge and commercial or industrial experience. For instance, 48 are holders of Engineering Degrees, and 32 were previously employed in industrial or commercial undertakings. About 24 have been promoted from the non-gazetted ranks and hold junior posts. The organisation itself being temporary it is but natural that a good many of the temporary officers lack the inducement to discipline themselves in the accepted ways of Government service. Many are preoccupied with their future and several officers with technical qualifications have frankly confessed to us that they are 'passengers' on the look out for employment of a kind offering greater scope for the use of their technical knowledge. We have interviewed most of the officers of the Department and tried to form a general impression of their capacity and of their fitness for the performance of the duties assigned to them. We are of course not in a position to make individual assessments. We have been struck by the marked capacity, alertness and initiative of some of the officers; but in the case of a good many we have formed a not altogether favourable impression of their capacity for doing the work which they have to do. But having ascertained the previous history and experience of most of these officers, we feel bound to say in the light of that information that at the time of their appointment there was no reason to expect that they would be otherwise than adequate. Considering the shortage of trained officers and the opportunities open to a competent man in trade and industry, we doubt whether any attempt to modify the composition of the officer staff would result in marked improvement of standards. On the other hand, it might well lead to the loss by the Department of such experience as has been gained. The existing staff must therefore be adapted to the greatest extent possible to the needs of the Organisation. It appears that full use is not being made of such technical knowledge as is available in the staff. Many junior officers possessing technical knowledge are employed largely on routine duties for the performance of which they have neither sufficient experience nor, being temporarily employed, much inducement to acquire it. Work of this character can, we think, be better done by junior officers selected from non-gazetted ranks; and technical officers could in that case be employed on work which demands a greater use of their specialised knowledge.

98. We have heard many complaints about dilatoriness and delay in the working of the organisation, and from what we have seen we think that these complaints are largely justified. Letters remain unacknowledged and unanswered for weeks and sometimes months; and it is often not thought worth while to answer even pre-paid telegrams. Files are badly maintained and in a number of cases correspondence is not even arranged in chronological order. Many files are incomplete and important facts are not recorded. A striking instance was the failure to record the substance of a conversation with a party with whom a sale involving over Rs. 40 lakhs was under negotiation, a failure which subsequently caused much dispute and the possibility of litigation. Delay in the return of deposits to unsuccessful tenderers is common and its effects are even more injurious than those of more dilatory correspondence. In an organisation consisting of such a large proportion of temporary and inexperienced staff both gazetted and non-gazetted it would be too much to expect the same efficiency in office arrangements as in well established organisations. But this does not diminish in any way the urgent need for improvement in standards of office work. Allowance must be made for short-comings in the case of an office suddenly faced with an enormous rush of work while still in the process of organisation. A fair degree of stability has, however, been attained and it is time strenuous efforts were made to secure a real improvement in the routine work of the office. A considerable proportion of the time of officers of all grades is now taken up in seeing visitors. When



negotiation ceases to be the principal method of disposal, much of this time will be saved and part at least of it could be utilised to improve what might be called the mechanical deficiencies of the Organisation. For this a greater measure of efficiency in the clerical staff is necessary. On the not wholly adequate but useful standard of "receipts and issues" the strength of the clerical staff appears to us to be more than sufficient, certainly in the lower rank of B grade clerks. We think, as do the Director General and many senior officers, that there is scope for reduction in the number of B grade clerks employed; and in our opinion this would be well worth doing even at the cost of increasing the strength of A grade clerks but only if care is exercised in choosing experienced people and the new posts are not filled by the automatic promotion of B grade clerks. We have considered whether it would be practicable to correct lack of experience by arranging for a short course of training; but we are afraid that any advantage so gained would probably be counter-balanced by the training itself becoming an additional excuse for delay. It is necessary therefore to rely for improvement on close supervision and guidance by Superintendents and junior officers. It is also important that the clerical staff should be totally prohibited from seeing any visitors or having any dealings with the public.

99. *Association of Non-officials.*—We have stressed more than once on the need to keep the public fully and continuously informed of the quantity and character of surpluses available for disposal, of the way in which it is proposed to dispose of them and all details of sales made. It is equally necessary that the Disposals Organisation should keep itself informed of the needs of the public and be responsive to suggestions from them. With such an object in view a Central Advisory Committee has been set up in Delhi to advise the Director General; similarly Regional Advisory Committees have been formed at Calcutta and Bombay to advise the Regional Commissioners. These Committees were expected to advise on questions referred to them, to bring to the notice of the Department matters requiring their attention and generally to serve as a link between the Organisation and the commercial community. We have had discussions with Members of all the three Committees and they all expressed the opinion that the Committees have not served the purpose for which they were created. The Central Committee and the Regional Committee, Calcutta have met only twice, although the Committee at Bombay has met more than half a dozen times. They have generally been the recipients of statistical information of what has happened and have had little opportunity to give concrete advice. We share the view that hitherto the Advisory Committees have been more or less ornamental, largely because they have not met often enough or on regularly fixed dates. We think that they can still perform a useful though limited function. It will of course not be practicable to associate these Committees with the day to day working of the Disposals Organisation; but we think that they might with great advantage be furnished at regular intervals with full information of the progress of disposals, and their observations and suggestions invited. The essentials for the effective working of an Advisory Committee are that the meetings should invariably be held on a fixed day each month (or whatever interval is thought suitable), and that the members of the Committee should have ample time before each meeting to digest the information with which they have been supplied since the last preceding meeting. We regard the Advisory Committee as providing a highly specialised and valuable form of publicity and we have already indicated our view that of publicity there can scarcely be too much.

100. *Whether there are definite indications of corruption.*—We are asked to report whether in our opinion there are any definite indications of corruption. We do not interpret this as meaning that we are to conduct an investigation into the transactions of the Disposals Organisation and its officers with a view to ascertaining whether and to what extent corruption exists. For such a task we have neither the time nor the machinery; and we lack the legal powers which alone could make an investigation practically effective. We take this part of our terms of reference to mean that we are to report whether in the course of our general enquiry facts or cases have been brought to our notice which appear to us to raise a suspicion of corruption, in the sense that they are scarcely explicable on any other grounds or are at least of a character which would seem to demand some explanation from the persons concerned in them.

101. It was not to be supposed that an organisation engaged in transactions of such magnitude and offering such opportunities to speculators as well as to genuine traders would escape the tongue of rumour and slander. The notorious deterioration in the standard of public honesty which has been one of the most disastrous consequences of the war has led a large number of persons, whether thoughtless or malicious, to believe that most men entering into contracts on behalf of Government have their price. No one who has had the misfortune to listen to the gossip of Delhi social and business circles will be ignorant of this. It is scarcely necessary to say that we have attached no importance to this type of anonymous scandal; but where precise allegations including the names of individuals have been brought to our notice, we have thought right to make such enquiries as were open to us. In some cases full information has been promised us by those by whom the alleged facts were first mentioned, but such full information has not been forthcoming. We are speaking of course of information from outside the Department itself. In the Department all the information we have asked for in connection with any particular case has been given us, though faulty record-keeping, especially in the earlier days of the organisation, has sometimes made it a good deal scantier than we could have wished. मन्त्र नयन

102. We have already said that we have no doubt of the existence of a good deal of fraud and collusion between actual or prospective buyers and those in charge of depots. Fraud and collusion of this kind are hard to detect or to prevent without a very large increase in the number of custodians and a stricter supervision of them. We think it probable that there will always be a residue of such cases; but it may be reduced to a minimum by a continuous process of stock-taking and verification of stores, by more accurate records, and by a greater insistence on the personal responsibility of officers in charge. These, however, are largely matters for the military authorities and not for the Disposals Organisation.

103. We have also no doubt that a certain amount of leakage goes on in the Department itself, presumably for money or money's worth. Buyers seem very accurately informed about tenders by competitors or about prices under discussion with others. Leakage of information is not so unusual in Government Departments that its appearance in the Disposals Department will excite surprise, but it is not less deplorable on that account. It can never be easy to check, but it should be regarded as a grave offence and should be punished with instant dismissal when it comes to light. A general tightening up of the clerical machinery of the Department which we have recommended elsewhere in this Report will be of value in this connection.

104. Of corruption in its grosser forms we have found no definite indication and it is only fair to the officers of the Department that we should say this. But we do not wish to be misunderstood; for it is equally impossible for us to assert categorically that it has never occurred. We have spoken already of the clouds of suspicion which from time to time have seemed to envelop the Department's operations; and it is on that account that we have so strongly urged the adoption of all measures tending to establish public confidence. Of these a greater degree of publicity has seemed to us one of the most important, as well as the restriction to the smallest compass reasonably possible of the method of negotiation for the purpose of effecting sales. The circumstances which necessarily attend the method of negotiation are such as themselves to arouse suspicion, however unjust that suspicion may be; but there is no need to aggravate them, and we are bound to say, after an examination of some of the cases brought to our notice, that if the acts or omissions of the officers concerned have caused a suspicion of malpractice to arise, the officers, however innocent they in fact may be, have only themselves to thank for it. It is unhappily true that corruption is very rife at the present time in all circles; and those engaged in financial transactions on behalf of Government cannot therefore conduct themselves with too much circumspection, if they want to escape calumny. The purest of motives and the clearest of consciences are of little avail, if foolish or thoughtless acts are committed on which the censorious or malicious can foster. To be in a position to negotiate with a string of buyers, playing off one against the other, is apt to minister to a sense of power or self-importance; but it is not surprising if cynical onlookers sometimes take less charitable view.

105. What we have just said is applicable to all those concerned in disposals business. It is the case, we fear, that persons have sought to secure business because of some real or fancied influence which they imagined that they could exert. We think it especially undesirable that members of legislatures, or persons who occupy or have occupied positions of prominence in public life, should engage in negotiation for the purchase of surplus goods, or act as agents or brokers for purchasers. Such persons are popularly believed, rightly or wrongly, to be in a position to exercise influence, and their appearance on the scene naturally excites suspicion and comment. We cannot doubt that the public interest would be better served, if they abstained from putting themselves in a position in which their interests and their duty may very possibly come into conflict and where they may cause suspicion to be cast, often quite unjustly, upon officers of the Department believed to have yielded to their pressure.

## CONCLUSION

106. We have in the course of this Report drawn attention to certain defects and weaknesses which seem to us to exist in the present disposals arrangements; but we should much regret if we were thought for that reason to have disregarded the complexity of the problems with which the organisation had to deal and the immense difficulties inherent in any system of the disposal of surplus stores. We fully recognise those problems and difficulties and if we have criticised it has been for the purpose of suggesting improvements and not to detract from what after all has been a very considerable achievement. The Director-General deserves every credit for having with the limited resources available brought his organisation up to a point where with certain adaptations and changes of method it will in our opinion be able to deal satisfactorily with most situations in the future which it is reasonable to anticipate.

107. We cannot conclude this Report without expressing our warm appreciation of the work of our Secretary, Mr. S. Bhoothalingam, I.C.S., and his staff. To Mr. Bhoothalingam himself we are under an especial debt. His great administrative experience and his wide knowledge of the problems involved in our enquiry have been freely put at our service and have been invaluable to us ; nor can we speak too highly of his industry and his patience. We have learnt to value not only his ability but also his judgment ; and we should not have been able to complete our task without the assistance and co-operation which he has at all times so cheerfully given.

S. BHOOHALINGAM  
*Secretary.*  
 28-2-47.

MAURICE GWYER,  
 T. VIJAYARAGHAVACHARYA.  
 28-2-47.



## APPENDIX I

*List of Chambers of Commerce and Trade Associations*

1. Northern India Chamber of Commerce, Lahore.
2. Indian Chamber of Commerce, Lahore.
3. Engineering Association of Northern India, Lahore.
4. Andhra Chamber of Commerce, Madras.
5. Southern India Chamber of Commerce.
6. Coimbatore Chamber of Commerce.
7. The Indian Chamber of Commerce, Cochin.
8. The Cochin Chamber of Commerce.
9. All India Manufacturers' Organisation, Bombay.
10. Association of Indian Industries, Bombay.
11. The Property Owners' Association, Bombay.
12. All India Muslim Chamber of Commerce & Industry, Bombay.
13. The Cinematographic Importers Association, Bombay.
14. The Indian Merchants Chamber, Bombay.
15. All India Radio Merchants' Association, Bombay.
16. The Chamber of Commerce, Bombay.
17. All India Cottage and Small Scale Industries Association, Bombay
18. Bombay Piece-Goods Native Merchants Association, Bombay.
19. Mahratta Chamber of Commerce, Poona.
20. Federation of India Chamber of Commerce & Industry, New Delhi.
21. Engineering Association of India, Calcutta.
22. Indian Chamber of Commerce, Calcutta.
23. Marwari Chamber of Commerce, Calcutta.
24. Muslim Chamber of Commerce, Calcutta.
25. Marwari Association, Calcutta.
26. Bengal Chamber of Commerce, Calcutta.
- \*27. Cawnpore Kapra Committee, Cawnpore.
- \*28. Ahmedabad Mill Owners' Association, Ahmedabad.
- \*29. All India Tentage Manufacturers Association, New Delhi.

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\*Personal discussions could not be held with representatives of these associations.

## APPENDIX

## WEEKLY SELECTION

Date : December

Description	Total Qty.	Reserve Price	Total Value	Tender Received
		Rs. As.	Rs. As.	
Baker Ice Plant . . . . .	1	15,000 0	15,000 0	5
Mk. I Shovels . . . . .	4,25,062	1 0 each	4,25,062 0	4
Grease-Proof Wrapping Paper . . . . .	63,767 Lbs.	1 0 per Lb.	63,767 0	Ntl.
Ditto . . . . .	56,555 Lbs.	1 0 per Lb.	56,555 0	Ntl.
Sulphaguanidine Powder . . . . .	4,430 Oz.	1 12 per Oz.	7,752 8	Ntl.
Ditto . . . . .	5,098 Oz.	Do.	8,921 8	Ntl.
Ditto . . . . .	4,471 Oz.	28 0 per Lb.	1,25,138 0	Ntl.
Sulphaguanidine Tablets . . . . .	5,10,00,000	35 0 per 1000 tablets	17,35,000 0	Ntl.
Sulphadiazine Powder . . . . .	1,90,000	2 8 per Oz.	4,75,000 0	Ntl.
Procaine Hydrochloride . . . . .	18,50,469	0 4 (1 amp.)	4,62,617 4	Ntl.
Total . . . . .			84,24,862 4	9

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## II

## ANALYSIS

23rd 1946

Tender Accepted At	Quantities sold	Total Sale Value	Quantities unsold	Values of items unsold	Reasons for rejecting offers
Rs.		Rs.		Rs. As.	
17,000	1	17,000	..	..	
NIL.	NIL.	..	4,25,062	4,25,062 0	No offer reached reserve price.
NIL.	NIL.	..	63,767	63,767 0	No offer.
NIL.	NIL.	..	56,555	56,555 0	No offer.
NIL.	NIL.	..	4,430	7,752 8	No offer.
NIL.	NIL.	..	5,098	8,921 8	No offer.
NIL.	NIL.	..	4,471	1,25,188 0	No offer.
NIL.	NIL.	..	5,10,00,000	17,85,000 0	No offer.
NIL.	NIL.	..	1,90,000	4,75,000 0	No offer.
NIL.	NIL.	..	18,50,469	4,62,617 4	No offer.
	1	17,000		34,09,868 4	

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## APPENDIX

## WEEKLY SELECTION

Date : December

Description	Total Quantity	Reserve Price	Total Value	Tenders received
		Rs. As.	Rs.	
Lorries 5/6 ton F.W.D. . . . .	717	5,000 0	35,85,000	4
5/6 ton Chassis F.W.D. . . . .	222	5,000 0	11,10,000	1
Mack 10 ton Diesel lorries . . . .	150	7,500 0	11,25,000	10
Amphibious Trucks 2½ tons . . . .	52	5,000 0	2,60,000	..
Leyland 10 tons lorries . . . . .	50	7,500 0	3,75,000	3
Natural Felt . . . . .	5,900 Yds.	8 0 per Yd.	4,72,000	..
Silk Parachute . . . . .	8,597	300 0 (1 parachute)	25,79,100	2
Waistcoats . . . . .	3,470	5 8 each	19,085	1
Waistcoats . . . . .	656	5 8 each	3,608	..
Total			95,28,793	21



II—contd.

ANALYSIS—contd.

30th, 1946

Tenders accepted At	Quantities sold	Total sale value	Quantities unsold	Values of items unsold	Reasons for rejecting offers
Rs. As. P.		Rs. As.		Rs.	
5,001 0 0	50	2,50,050 0	666	33,80,000 0	
5,551 0 0	1	5,551 0			
	51	2,55,601 0			
5,500 0 0	4	22,000 0	218	10,90,000 0	
10,500 0 0	16	1,68,000 0	..	..	
9,199 0 0	50	4,59,950 0			
8,250 0 0	54	6,73,000 0			
	150	13,00,950 0			
..	..	..	52	2,00,000 0	No offer.
8,566 10 8	6	51,400 0			
8,000 0 0	44	3,52,000 0			
	50	4,08,400 0			
..	..	..	5,900	4,72,000 0	No offer
..	..	..	8,597	25,79,100 0	Offers below reserve price.
5 9 6	3,470	19,412 12	..	..	
..	..	..	656	3,608 0	No offer.
		20,01,868 12		77,84,708 0	

## APPENDIX

## WEEKLY SELECTION

Date: January

Description	Total Quantity	Reserve Price	Total Value	Tenders received
		Rs. As.	Rs. As.	
Chrome leather buffalo 'A'	33,000 Sq. ft.	1 4 (1 Sq. ft.)	41,250 0	1
Chrome leather cow 'A'	22,780 Sq. ft.	Do.	28,475 0	1
Do. 'B'	63,070 Sq. ft.	Do.	78,837 8	1
Do. 'C'	71,680 Sq. ft.	Do.	89,600 0	1
Copper wire	3,000 (Cwt.)	70 0 (1 Cwt.)	2,10,000 0	18
Flashlight bulbs	3,78,280	0 3 each	..	..
Battery separators	4,47,600	0 2 "	55,950 0	..
American Tennis Balls	1,000 dozen.	18 0 (1 dozen)	18,000 0	2
Pingpong balls	800 dozen.	3 8 (1 dozen)	2,100 0	1
Insecticide Spray Pumps	85,000	2 8 each	87,500 0	..
<b>Total</b>			<b>6,11,712 8</b>	<b>25</b>

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II—*contd.*ANALYSIS—*contd.*

6th, 1947

Tenders accepted at	Total Quantities sold	Total Sale Value	Quantities unsold	Values of items unsold	Reasons for rejecting offers
Rs. As.		Rs. As.		Rs. As.	
1 4 . . .	150 Sq. ft.	187 8	32,850 Sq. ft.	41,062 8	..
1 4 . . .	150 Sq. ft.	187 8	22,680 Sq. ft.	28,287 8	..
1 4 . . .	150 Sq. ft.	187 8	62,020 Sq. ft.	78,650 0	..
1 4 . . .	150 Sq. ft.	187 8	71,530 Sq. ft.	89,412 8	..
82 0 . . .	3,000	2,46,000 0	..	..	..
..	..	..	..	..	Store disposed of by declarer.
..	..	..	4,47,600	55,950 0	..
21 11	950	20,608 2	50	900 0	Other tenders below reserve price.
..	..	..	600	2,100 0	Tenders below reserve price.
..	..	..	35,000	87,500 0	No tenders received.
		2,67,858 2		3,83,862 8	

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## APPENDIX

## WEEKLY SELECTION

*Date : January*

Description	Total quantity	Reserve Price	Total Value	Tenders received
		Rs.	Rs.	
Khaki Drill Shorts . . . . .	15,00,000 Pairs	3 per pair	45,00,000	3
Gunny bags . . . . .	8,08,000	45 per 100 bags	3,61,850	8
Jute Canvas Bags . . . . .	5,00,000	75 per 100 bags	3,75,000	9
Do. . . . .	5,00,000	Do.	3,75,000	2
<b>Total</b> .			56,11,850	22



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II—*contd.*ANALYSIS—*contd.*

13th, 1947

Tenders accepted at	Quantities sold	Total Sale value	Quantities unsold	Value of items unsold	Reasons for rejecting offers
Rs. As. P.		Rs. As. P.		Rs.	
3 5 0 .	2,000	6,625 0 0	14,98,000	44,94,000	Others below reserve price.
47 2 3 .	8,03,000	3,78,539 7 6	<i>Nil</i>	<i>Nil</i>	..
85 12 0 .	95,000	81,463 8 0	4,05,000	3,03,750	Others without deposit.
90 0 0 .	4,34,260	3,90,834 0 0	65,740	49,305	One below R. P.
		8,57,461 15 6		48,47,055	



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Description	Total Quantity	Reserve Price	Total Value	Tenders received
		Rs.	Rs.	
Bicycles . . . . .	1,440 (Actual No. 470)	75	35,250	26
Copper wire . . . . .	1,780 Cwts. .	25 per Cwt.	44,500	2
Do. . . . .	1,160 . . .	25 per Cwt.	28,000	2
Steel wire with copper coating .	3,400 . . .	25 per Cwt.	85,000	5
Typewriters . . . . .	1,000 . . .	350 each	3,50,000	2
Total .			5,42,750	37

ANALYSIS—cont'd

20th, 1947

Tenders accepted at	Quantities sold	Total sale Value	Quantities unsold	Values of items unsold	Reasons for rejecting offers
Rs. As.		Rs. As.		Rs.	
101 0	470	48,060 0	<i>Nil</i>	<i>Nil</i>	No. of cycles short of actual No. reported
27 0	1,780	47,180 0	<i>Nil</i>	<i>Nil</i>	..
27 0	72	1,944 0	1,088	27,200	..
30 0	400	12,000 0	} <i>Nil</i>	<i>Nil</i>	..
25 8	3,000	75,046 14			
	3,400	87,046 14			
401 8	1,000	4,01,500 0	<i>Nil</i>	<i>Nil</i>	..
		5,85,710 14		27,200 -	

## APPENDIX

## WEEKLY SELECTION

Date : *January*

Description	Total Quantity	Reserve Price	Total Value	Tenders received
		Rs. AS. P.	Rs.	
Hosiery needles . . . . .	3,80,000	100 0 0 per thousand	38,000	3
Do. . . . .	88,000	100 0 0 Per thousand	8,800	3
White Felt . . . . .	15,000	5 0 0 per yd.	75,000	5
Serge shirts . . . . .	24,000	4 8 0	1,08,000	3
Insecticide Bombs . . . . .	5,00,000	4 0 0 each	20,00,000	Nil
Mercury . . . . .	12,000 lbs.	5 0 0 per lb.	60,000	4
American toilet soap . . . . .	20,00,000 Cakes	0 2 0 each	2,50,000	46
American Laundry Soap . . . . .	2,25,000	0 6 0 each	84,375	40
Total . . . . .			26,24,175	103

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II—conold.

ANALYSIS—conold.

27th, 1947

Tenders accepted at	Quantity sold	Total sale value	Quantities unsold	Values of items unsold	Reasons for rejecting offers
Rs. As. P.		Rs. As. P.		Rs.	
105 0 0 per thousand	3,80,000	39,900 0 0	Nil	Nil	
105 0 0 per thousand	88,000	9,240 0 0	Nil	Nil	
7 0 0	100	700 0 0	14,900	74,500	Two below R. P. Two without bank deposit.
Nil	Nil	Nil	24,000	1,08,000	Two below R. P. Two without bank deposit.
Nil	Nil	Nil	5,00,000	20,00,000	No offer.
5 0 0	12,000	60,000 0 0	Nil	Nil	..
1 @ 0 3 8	4,00,000	91,666 10 8	Nil	Nil	..
2 @ 0 3 7	5,50,000	1,23,167 1 4			
1 @ 0 3 14	80,000	15,625 0 0			
1 @ 0 3 0	50,000	93,750 0 0			
1 @ 0 2 9	9,20,000	1,58,125 0 0			
	20,00,000	4,82,333 12 0			
1 @ 0 7 9	50,000	24,218 12 0	Nil	Nil	..
1 @ 0 7 84	1,75,000	84,309 14 4			
	2,25,000	1,08,528 10 4			
		7,00,702 6 4		21,82,500	

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## DATE LOANED

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